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Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Macroeconomic Effects of the Wave of Immigration

09/11/2018

Alexander Ludwig on the demonstrations in Chemnitz from an academic perspective



As Felix Brummer, the singer of the Chemnitz band Kraftklub, emphasized before the concert last Monday, it would be naive to believe that one could "make a concert and then the world is saved". But just as these musicians decided to make their contribution, as a scientist I can also contribute to the debate. This is the motivation for this blog post, although the scientific study on which it is based still relies on preliminary results.

As a scientist, it is important to find a clear language that places populist and nationalistic arguments into the corner they belong: propaganda that distracts from the real causes of potential problems and seeks scapegoats. The recent events in parts of Germany show the threat of politicians that make use of false

facts to intensify the spread of propaganda

The long-term economic effects are positive

Below I present the results of our calculations on the economic effects of the big of immigration to Germany that began in 2016, using 2015 as base year. Currently the study is under revision due to new data.)

Even if 3.5 million poorly educated refugees come to Germany by 2020, the overall economic effects are low. Despite mainly low-skilled immigrants, the average per capita income in Germany by 2040 remains at the same level as if there would have been no immigration whatsoever. Given that the measure of per capita income takes into account that refugees are less productive, this result is equivalent to saying that the whole economy will benefit from the inflow. At the same time, per capita income is a distorting measure, since it always sinks when a given income supports more individuals; or if these individuals contribute to the income but are less productive than the average of the population, as it is the case with the refugees.

The reason for the long-term positive effects are rooted in our social system: even though the refugees and young migrants are less educated and thus significantly less productive compared to the average domestic work force, they support the social system in the medium term by their activity and lower age. The result is an increase of efficiency of the overall economy. In the pension system, for example, this may lead to a drop in the contribution rate by one percentage point until 2040.

Yes, in the short term, there is pressure on the labor market and the net wages of low skilled workers, especially those with a migrant background, fall. However, this effect is already overcompensated after only a few years, and these population groups in the overall picture also benefit economically from immigration. This is calculated on the assumption that, after ten years 60 percent of immigrants will be successfully integrated into the labor market - certainly a cautious assumption. Moreover, we also assume - to be conservative - that low-skilled immigrants do not acquire higher qualification.

More investment in education

If it is successful not only to integrate young immigrants into the labor market, but also to improve their training, net wage effects would become positive even earlier, even in the less well-qualified field of employment.

Therefore, the task that politicians in Germany must face is not to further divide the society with populist drums, but to support relevant policy measures for the labor market. Improved job training is particularly important here. More money needs to be channeled into measures that enable low-qualified people in this country, regardless of their origin, to benefit from technical progress. The cost of integrating immigrants is a meaningful investment in the future.

Even more importantly, our study reveals the costs of a failed pension policy: this is wasted money and will bring Germany much more growth losses and productivity losses! A pension guarantee while holding the retirement age at the current level will lead to losses in per capita income of 14 percent by 2040. In this light, the temporary losses of per capita income caused by the inflow of refugees that are compensated by 2040, as described above, of a maximum of 0.5 percent are hardly significant.

More detailed insights into our analysis can be found here: The Macroeconomic and Distributional Effects of the 2015-? German Immigration Wave: First results (https://www.wiwi.uni-frankfurt.de/fileadmin/user_upload/dateien_abteilungen/abt_ewf/LS_Ludwig/Working_Paper/Migr_Presentation Christopher Busch, Daniel Harenberg and Dirk Krueger), 2016, work in progress.

Look at the Crime Statistics

A brief digression into German crime statistics shows that violent crime has been rising steadily at the federal level since the 1980s and has fallen again since the mid-2000s. The rate of change in violent crime compared to the previous year rose by about six percent in 2016, but fell again last year, suggesting a decline in violent crimes. The increase in 2016 may be related to the high number of migrants. But it is important to emphasize the decline in 2017 in the same magnitude.

An increase in violent crime in connection with high levels of immigration is known to be a transitory problem. This aspect becomes particularly clear looking at the year 1992, when the number of violent crimes in Germany rose by 20 percent - with as many as one million immigrants in connection with the civil war in the former Yugoslavia. In the period thereafter, a fairly rapid decline to zero growth is observed. Even in absolute terms, there has been a decline. The number of police-registered crimes per 100,000 inhabitants has declined by ten percent from 2016 to 2017.

Thus, it cannot be inferred from this observation that the inflow of migrants to Germany would cause a persistent increase in violent crime.

Here (<https://safe-frankfurt.de/news-latest/safe-finance-blog/detail-pages/ludwig-10sep18.html>) you can find Crime statistics graphs.

Data source: Bundeskriminalamt; Statistisches Bundesamt.


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