

Economic challenges and prospects of the refugee influx

SUMMARY

The current refugee influx represents the largest population movement in Europe since World War II. Its size and complexity make it difficult to draw conclusions on the economic challenges and prospects valid for each Member State of the European Union (EU).

Many experts agree that, in the short term, the refugee influx will lead to rising costs, arising from the need to provide food, shelter and first aid. In the longer term, the refugee influx could be positive for the European economy by, for example, addressing the EU's alarming demographic trends. Depending on their education, skills and willingness to work, refugees might improve the ratio of active workers and also contribute to innovation, entrepreneurship and GDP growth. Regarding the labour market, migrants can fill important niches both in fast-growing and declining sectors of the economy, and contribute to labour-market flexibility.

Refugee, migration and asylum policy is largely under the auspices of the Member States and intergovernmental EU policy-making. The uncontrolled mass arrival of refugees has highlighted the different views in the Member States on migration and immigration, driven by economic, social and cultural divergences and spurred the debate on a new EU migration policy.

According to the European Parliament, the EU and its Member States should target the potential gains from the current influx by, inter alia, successful economic and social integration of the refugees.



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Glossary

Dublin Regulation: establishes the [principle](#) that only one EU Member State is responsible for examining an asylum application. The objective of [Council Regulation \(EC\) No 343/2003](#) is to prevent abuse of the system by the submission of several asylum applications by one applicant.

Refugee / asylum-seeker / migrant: refugee is used to describe all beneficiaries of international protection. Under [EU law](#), an asylum-seeker is a person who has applied for asylum. Migrant covers non-EU citizens who have their residence in an EU Member State for a period of at least 12 months.

Schengen Agreement: concerns the right of EU citizens (and others) to move across internal borders without checks, but also the duty of member states to manage the external borders of the [Schengen area](#). The Schengen area includes most EU Member States, plus Norway, Iceland and Switzerland.

Background

The current refugee influx represents the largest population movement in Europe since the Second World War. According to the European Asylum Support Office ([EASO](#)), in September 2015 asylum applications in the EU+ countries¹ rose for the fifth consecutive month reaching a new record high with more than 170 000 applications.² In the whole of 2014, the EU Member States received about 650 000 asylum applications, whereas the European Commission [expects](#) 1 million refugee arrivals in 2015, 1.5 million in 2016 and half a million in 2017.

The huge refugee inflow has led to diverging views in the EU on how to deal not only with border controls and humanitarian aid, but also with the social and economic challenges. While the Commission in its latest [Economic Forecast](#) (Autumn 2015) says that the influx could – depending on the skills of the new arrivals – moderately boost the EU economy, some Member States remain sceptical.

The arrival of refugees has also provoked debates in academia. Thomas Piketty, the author of *Capital in the 21st Century*, for instance, [says](#) that the crisis represents an opportunity for Europe to 'kick-start the continent's economy'. Hans-Werner Sinn, one of Germany's best-known economists, is less optimistic. He [argues](#) that, as many of the refugees are low-skilled, the economic challenges will outweigh the opportunities.

The economic effects of migration in theory and practice

The mainstream argument in the debate on the current arrival of refugees is that in the short term, transit and destination countries will have costs arising from the need to provide food, shelter and first aid to refugees.

In the medium term, destination countries also have to deal with processing asylum applications and the costs of social and economic integration (including social benefits, healthcare, and costs for education and occupational training).³

In the long term, however, the refugee influx might be positive for the European economy. The new migrants can play an important role in addressing Europe's alarming demographic trends, and – depending on their skills and willingness to work – improve the ratio of active workers to non-active persons (e.g. pensioners), whilst also contributing to innovation, entrepreneurship and GDP growth. In respect of the labour market, some experts argue that migrants can fill important niches both in fast-growing

and declining sectors of the economy and contribute to labour-market flexibility. In addition, young migrants are often, like native-born non-migrants, considered to be better educated than those nearing retirement. Regarding the public purse, in the long run migrants can contribute more in taxes and social contributions than they receive in benefits. So migrants have the potential to make a positive impact on the public purse, with employment being the most visible determinant of their net fiscal contribution.⁴

A couple of empirical studies have tried to assess the economic impact of migration, nonetheless the shortage of harmonised comparative data on international migration (e.g. by skills levels) may distort the results.

One [study](#) analyses the impact of migration on economic growth for 22 countries of the Organisation for Economic Co-operation and Development (OECD) in the period 1986-2006. It concludes there is a positive, but small impact of the new human capital on GDP growth. According to the authors, the contribution of migrants to human capital increase tends to counteract the impact of population increase on capital per worker, but the net effect is small. An increase of 50% in net migration of foreign-born persons generates less than one tenth of a percentage point variation in productivity growth.

Table 1 – Fiscal contribution, benefits and net contribution by migration status, 2007-2009 average
In euros (PPP adjusted)

	Contribution			Benefits			Net contribution		
	Native	Mixed	Migrant	Native	Mixed	Migrant	Native	Mixed	Migrant
Switzerland	19 858	26 353	20 149	4 889	4 917	5 601	14 968	21 437	14 549
Iceland	18 972	23 117	12 380	6 701	5 559	3 087	12 272	17 558	9 292
Luxembourg	20 043	23 732	20 463	21 270	16 500	11 285	- 1 228	7 232	9 178
Italy	15 346	19 552	12 310	11 366	7 426	3 162	3 980	12 126	9 148
United States	15 527	22 844	13 145	6 993	5 687	4 871	8 534	17 158	8 274
Greece	13 246	16 068	9 476	8 238	5 557	1 748	5 008	10 511	7 728
Spain	10 518	14 820	10 057	7 412	4 990	2 561	3 106	9 830	7 496
Belgium	18 856	25 611	13 707	9 697	8 781	8 147	9 159	16 830	5 560
Canada	12 959	21 160	11 518	5 407	5 666	6 351	7 552	15 494	5 167
Norway	17 382	31 613	12 368	12 327	11 246	7 863	5 055	20 366	4 505
Portugal	8 024	13 854	8 320	7 074	4 055	3 841	950	9 799	4 479
United Kingdom	11 503	20 990	10 803	8 899	9 036	7 774	2 604	11 954	3 029
Slovenia	13 316	14 096	10 491	8 866	11 728	7 485	4 450	2 368	3 006
Netherlands	21 175	32 576	12 415	11 236	11 273	9 871	9 940	21 303	2 544
Denmark	17 574	26 428	11 041	10 211	8 715	8 673	7 362	17 713	2 368
Austria	16 705	21 465	12 334	13 330	15 022	9 980	3 375	6 443	2 353
Australia	8 476	12 314	7 447	4 700	3 961	5 144	3 776	8 353	2 303
Hungary	6 531	8 466	6 643	5 450	6 551	4 779	1 081	1 915	1 864
Finland	15 188	19 970	8 942	9 482	7 706	7 628	5 706	12 265	1 314
Sweden	17 041	24 472	11 005	10 226	10 999	10 109	6 815	13 473	896
Estonia	7 528	9 378	3 990	3 014	3 501	3 992	4 514	5 877	- 2
Czech Republic	8 465	8 095	4 914	4 990	6 965	5 100	3 474	1 116	- 184
Ireland	9 527	16 574	7 309	12 014	10 063	8 583	- 2 487	6 511	- 1 274
France	13 359	21 324	9 961	10 952	12 193	11 412	2 407	9 131	- 1 451
Slovak Republic	6 151	6 876	2 439	4 003	6 123	4 610	2 148	752	- 2 171
Germany	15 373	14 176	8 094	9 498	18 629	13 727	5 875	- 4 453	- 5 633
Poland	5 470	5 853	2 319	5 178	10 483	8 009	291	- 4 630	- 5 691

Data source: OECD, [International Migration Outlook 2013](#), p. 174.

NB: 'Mixed' refers to households in which one of the two household heads is foreign-born.

The 'International Migration Outlook 2013' [report](#) of the OECD looks, inter alia, at the fiscal impact of migration for European OECD countries and for Australia, Canada and

the United States. The study suggests that the impact of the cumulative waves of migration (that have arrived over the past 50 years in OECD countries) is on average close to zero, rarely exceeding 0.5% of GDP in either positive or negative terms. The impact is highest in Switzerland and Luxembourg, where immigrants provide an estimated net benefit of about 2% of GDP to the public purse. It seems that some countries are more successful than others in integrating immigrants into their labour markets. While in the UK, for instance, proportionately only slightly more immigrants are unemployed than natives, in Spain, Greece, Belgium and Sweden there is a gap of [10 percentage points or more](#). Divergences appear also on other indices: France, Germany and Finland, for instance, have [gaps](#) between the educational performance of children of native-born parents and the children of immigrants.

Münz et al. conclude in their [report](#) that the impact of immigration is, on average, negative, but small: 'This suggests, that the potential downward effect is offset by additional creation of employment due to economies of scale and spillovers (which increase productivity) as well as higher demand for goods and services (due to population growth through immigration).'⁵

A further study by Sinn analyses the dependency of (statutory) [minimum wages](#), low-income labour and migration. More flexibility or even the decrease of minimum wages (supported by fiscal wage subsidies for employers) might contribute to the economic integration of new migrants. However, the competing of the new migrants with the earlier immigrants might lead to crowding-out effects in the low-income sector.⁶

A closer look at demography, refugee education and employment

In the debate on the refugees' economic impact, many macroeconomic predictions (e.g. GDP growth, public purse) are linked to demographic change, and the education and employability of refugees and migrants.

The ageing of Europe is among the EU's most serious challenges. The continent's long-term social and economic potential is limited by its looming demographic crisis. In 2013, the total [fertility rate](#) in the EU is slightly above 1.5 children per woman. This presents a serious challenge for the social security system, including [pensions](#), and [health and long-term care](#).

According to the [2015 Ageing Report](#) of the European Commission, the population of the EU Member States will slowly increase from 507 million (2013) to 523 million (2060). At the same time, there will be fewer in employment, the working age cohort (15-64) will decrease from 211 million (2013) to 202 million (2060). As in 2060 people will live (on average) six years longer than today, according to Eurostat statistics the proportion of the population aged 65 or older will rise from 18.5% (2014) to 28.4% (2060) (see Figure 1). As a consequence, the ratio of working age people (15-64) to those 65 and older – the old-age dependency ratio – is expected to [decrease](#) from around 4 to 1 in 2013 to 2 to 1 by 2060.

It is very likely, that France, the UK and Sweden will continue to have population growth and slower ageing due to immigration and higher birth rates. Due to its low birth rates, Germany already has one of the EU's oldest populations. If this demographic trend

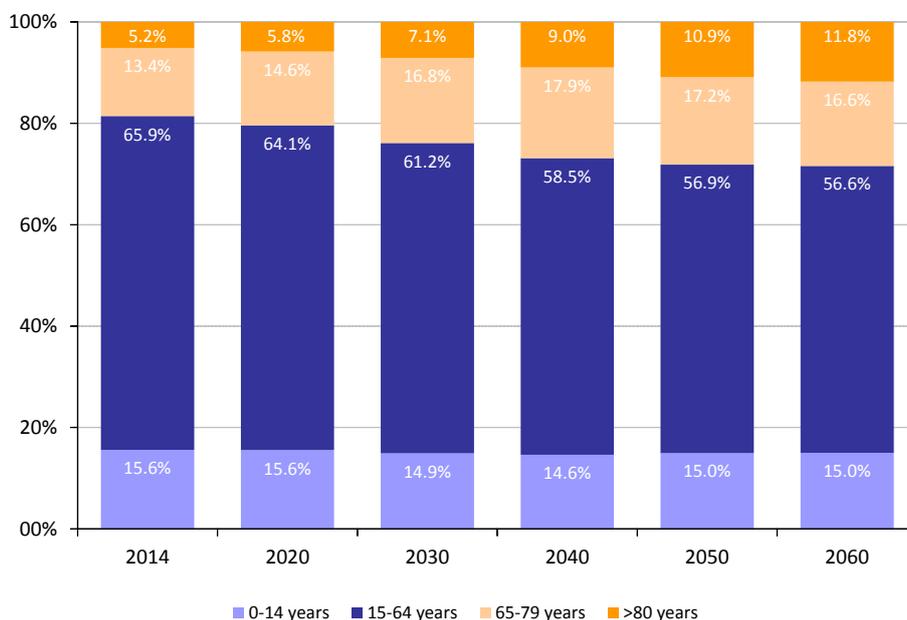
This is a very acute problem because for years Europe has been doing a sort of collective demographic suicide. To change the demographic trends, promoting birth is not enough. It also has to be done through immigration. If not, we're creating a great difficulty to growth and to the welfare of future generations.

Vitor Constâncio
Vice-President, European Central Bank

continues, in 2060 Germany will be only the EU's third biggest country by population, behind the UK and France.⁷

Despite this worrying demographic trend, the current refugee influx remains a contested issue in Germany. In the 1960s and 1970s, Germany faced a shortage of unskilled labour. Large-scale migrations to Germany from, amongst others, Turkey, Italy and Greece, delivered a substantial economic boost, but also unleashed a debate on cultural and

Figure 1 – EU-28 population structure by age groups, 2014–2060 (% of total population)



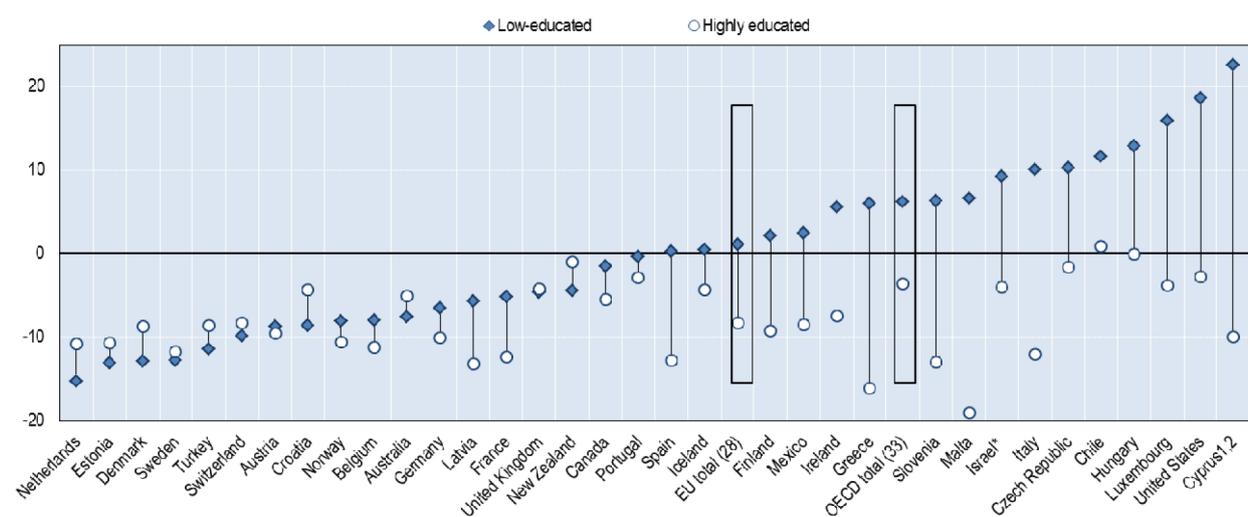
Data source: [Eurostat](#).

social integration issues, and on discrimination. In the context of the current refugee inflow, Germany is pondering its social and economic costs and benefits. According to projections by the [German Council of Economic Advisors](#), the additional budgetary costs of the influx for Germany will be between €5.9 billion and €8.3 billion in 2015, and up to €14.3 billion in the year after. This public expenditure is expected to stimulate domestic demand and to increase GDP by between 0.3% and 0.5% in 2016.⁸

In order to mitigate the demographic challenge, experts urge efforts to support families and increase the fertility rate, as well as developing controlled migration and a sustainable integration policy. In this context, the education status of the refugees comes into play. Generally speaking, young immigrants (like their native counterparts) are more educated than immigrants at retirement age. There are nevertheless regional differences. Many migrants from eastern Europe are, on average better qualified than refugees from the Middle East. The World Bank [estimates](#) the literacy rate among those aged 14-24 at 96% for Syrians, 82% for Iraqis and 47% for Afghans. These aspects might be of relevance for destination countries when providing residence and work permits.

Although employment is an important determinant of migrants' net fiscal contribution, only a small number of these potential workers came through (national) [managed labour migration](#). More important were motivations such as family reunification, and humanitarian and free-movement migration.⁹ Even if migration is not directly driven by workforce needs, immigrants play an important role in many sectors. According to the OECD, migrants represented 22% of entries into strongly growing occupations in the United States and 15% in Europe. These included, amongst others, occupations in the field of health-care and STEM (Science, Technology, Engineering and Mathematics).¹⁰ At the same time, immigrants represented about a quarter of entries into the most strongly declining occupations in Europe (24%) and the United States (28%). In Europe, these occupations include craft and related trades workers as well as machine operators

Figure 2 – Employment rates of foreign-born population aged 15-64 not in education by educational level, 2012-2013 (Difference with the native-born in percentage points)



Data source: OECD, [Indicators of Immigrant Integration 2015: Settling In](#), p. 83.

and assemblers; in the United States, they concern mostly jobs in production, installation, maintenance and repair. In all these areas, immigrants are filling labour needs by taking up jobs regarded by domestic workers as unattractive or lacking career prospects.¹¹ Relative to the native-born population, low-educated migrants are better integrated in the labour market than highly educated ones. On the one hand, Member States are complaining about supposedly (too) low-skilled migrants/refugees but evidence shows that those who are eventually granted access to the labour market have to do so often below their skill level.

A look at Turkey, where almost 2 million Syrian refugees found shelter, supports that view. A 2015 [study](#) on behalf of the World Bank Group demonstrates that the arrival of the refugees resulted in large-scale displacement of informal, low-educated Turkish workers (mostly women in part-time positions), especially in the agriculture sector. Interestingly, the inflow of refugees also created higher-wage formal jobs, allowing for occupational upgrading of Turkish workers.

Similar [experiences](#) were seen in Jordan. In areas settled by Syrian refugees, unemployment has not increased. Syrian workers found employment in low-skill sectors that Jordanians avoided. This evidence is consistent with that on the net impact of migrants on labour markets, which is rather small or [positive on average](#). These effects are not limited to the Syrian example. In the 1990s, Burundian and Rwandan refugees generated [net economic gains](#) for their Tanzanian host communities.

The EU's migration policy and response to the current refugee influx

Immigration policy is still a core sovereignty of the Member States, with selected and limited executive powers for the EU (e.g. the Dublin Regulation). Since the introduction of the Lisbon Treaty, the EU however has among others the competence to lay down the conditions of entry and residence for non-EU citizens entering and residing legally in a Member State for purposes of family reunification ([Articles 79 and 80](#) of the Treaty on the Functioning of the European Union).¹² In this context, the '[Blue Card](#)' (see box) was introduced. It aims to, inter alia, counter the negative economic effects of demographic ageing and to strengthen the EU's economic performance. Further instruments of EU

migration policy include the promotion of a common border management through [Frontex](#), and financial support through AMIF.

The uncontrolled massive arrival of refugees has highlighted the different views in the Member States on migration, driven by economic, social and cultural divergences.

EU 'Blue Card' Directive

In 2009, the EU adopted a [Directive](#) which introduces a special residence and work permit for non-EU citizens. The 'Blue Card' aims to put in place attractive conditions for non-EU workers considering taking up high-skill employment in a Member State. In addition, it aims to create a harmonised fast-track procedure and common performance criteria, such as a work contract, professional qualifications and a minimum salary level. The 'Blue Card' may facilitate access to the labour market and may entitle holders to favourable conditions for family reunification and movement within the EU. Member States, however, still retain the right to determine admission rates for people coming from non-EU countries to seek work.

AMIF

[AMIF](#) stands for the EU's Asylum, Migration and Integration Fund. It aims to support efforts made at the EU and national levels to manage refugee influxes. Support is also given to non-EU countries and organisations, including the United Nations High Commissioner for Human Rights ([UNHCR](#)) and the United Nations World Food Programme ([WFP](#)). For the 2014-2020 period, AMIF is endowed with [€3.1 billion](#). Additional funding of €9.2 billion has been allocated to address the recent refugee influx in 2015-2016.

These concerns not only led to sporadic suspension of the Schengen Agreement, but also raised questions about how to cope with the costs of the refugee inflow in the context of consolidation of public finances. Some Member States argue that the influx constitutes an 'unusual event' and have asked the Commission to activate the flexibility clause in the [Stability and Growth Pact](#). Pierre Moscovici, Commissioner for Economic and Financial Affairs, [noted](#) that the extra spending on the refugees could increase GDP by between 0.2% and 0.3% by 2017. Valdis Dombrovskis, European Commission Vice-President for the Euro and Social Dialogue, [said](#) on 10 November 2015 that the Commission is 'fully committed to applying the Stability and Growth Pact.' This also includes the flexibility aspect and will be assessed on a 'case-by-case basis'.

Outlook

The size and complexity of the current refugee influx make it difficult to draw economic conclusions applicable to all EU Member States, who have different approaches and capacities to respond. Most studies suggest that the refugee and migration influx is neither a burden on the public purse nor to the labour market. According to Commissioner Moscovici, the 'weak but positive' economic effect of the refugees could [help](#) offset growing hostility towards them.

The European Parliament has discussed the refugee issue with heads of state or government and with the European Commission.¹³ Besides the need for an overhaul of EU migration policy and the humanitarian aspect, the economic challenges and prospects were discussed. In order to realise the potential gains from this new wave of immigration, the EU and its Member States should not only focus on the short-term costs, but also take into account the long-term benefits. In this context, the successful integration of the refugees, both economically and socially, may be key.

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Endnotes

¹ The EU+ is composed of the 28 EU Member States plus Norway and Switzerland.

² The figures cover only 26 of the 30 EU+ countries.

³ Cf. Tax burden and migration: a political economy theory and evidence, A. Razina, E. Sadkaa and P. Swagelb, *Journal of Public Economics*, Vol. 85, Issue 2, August 2002, pp. 167–190; Migration and Social Replacement Incomes: How to Protect Low-Income Workers in the Industrialized Countries Against the Forces of Globalization and Market Integration, H.W. Sinn, *International Tax and Public Finance*, Vol. 12, Issue 4, August 2005, pp 375-393.

⁴ Cf. D.S. Massey and J.E. Taylor (eds.), *International Migration: Prospects and Policies in a Global Market*, Oxford University Press, 2007; [Is Immigration good for the economy?](#), OECD, *Migration Policy Debates*, May 2014; [Integration von Flüchtlingen - eine langfristig lohnende Investition](#), M. Fratzscher and S. Junker, DIW Wochenbericht No. 45, November 2015, pp. 1083-1088.

⁵ Cf. [The Costs and Benefits of European Immigration](#), Rainer Münz, Thomas Straubhaar, Florin Vadean, Nadia Vadean, Hamburg Institute of International Economics (HWWI), HWWI Research Programme Migration – Migration Research Group Report No. 3, Hamburg, 2006, p. 7.

⁶ Cf. Migration and Social Replacement Incomes: How to Protect Low-Income Workers in the Industrialized Countries Against the Forces of Globalization and Market Integration, H.W. Sinn, *International Tax and Public Finance*, Vol. 12, Issue 4, August 2005, pp 375-393. See also H.W. Sinn's article 'Migration and Social Replacement Incomes' and also his [interview](#) with the German weekly *Die Zeit*.

⁷ On the demographic developments and the necessity of migration in Germany, cf. also the Bertelsmann Foundation report [Zuwanderungsbedarf aus Drittstaaten in Deutschland bis 2050](#).

⁸ See the report of the [German Council of Economic Advisors](#), p. 16.

⁹ Here, the diverging legislations on migration come into play. In the European Union, EU citizens enjoy the right to free movement. In Australia, Canada and Switzerland, labour migration depending on qualification and skills is an important socio-economic determinant and managed by national authorities.

¹⁰ Cf. [Is Immigration good for the economy?](#), OECD, *Migration Policy Debates*, May 2014, p. 2.

¹¹ Ibid.

¹² For further aspects of the EU migration policy see the EPRS publication [Third-country migration and European labour markets: Integrating foreigners](#), A. Stuchlik and E.M. Poptcheva, European Parliamentary Research Service (EPRS), European Parliament, July 2015.

¹³ Debates on this issue took place during the [September](#), [October I](#) and [October II](#) plenary sessions.

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