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The Economic Consequences of Immigration to Germany

With 20 Figures and 34 Tables

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Introduction

This volume discusses some economic aspects of immigration with special reference to the case of Germany.

Immigration has become a major issue in Germany. Germany still does not have an official immigration policy in spite of the fact that more than 8 percent of the residents are non-citizens and that Germany's immigration figures almost have reached the US figures.

The foreign labor supply strongly influences the German labor market. The bulk of foreign workers is employed in certain industries. In some industries (mining, steel) 20 and more percent of the employees are foreign workers. Most foreign workers are blue collar workers with low wages. The labor demand for immigrants has declined in the last 15 years while the foreign population and labor supply has increased. As a consequence, foreigners experience higher unemployment rates than Germans. The fall of the Berlin wall and the collapse of the communist regimes in East Europe further increased the blue collar labor supply and strengthened the competition for foreign workers on the German labor market.

There have been several periods of increased academic attention to immigration in Germany in the past. The economic and sociological studies of the early fifties dealt with the inflow of the millions of German refugees from East Europe. In the sixties the main interest was in the economic and social problems of guest workers from South Europe. When in 1973 the German government encouraged return migration of guest workers the emphasis of the studies shifted to problems of integrating the immigrants. Since the late eighties the consequences of increasing numbers of asylum seekers and of ethnic German immigrants from East Europe have become a main focus in the literature.

This book collects some recent works of German and American scholars dealing with economic aspects of immigration to Germany. *Christoph M. Schmidt* deals with two crucial questions: how will the migrants integrate into the existing labor force over time, and how will the migrant stream affect the wage and employment outcomes of native workers? He shows that Germany's own migration history yields data that could be used to answer these questions. Germany has already experienced permanent migration on a large scale, mainly through a change in the nature of guest worker migration in recent decades. *Schmidt* argues that the magnitude of migrant influx, the patterns of duration of stay, and location choices resemble the experience of typical immigration countries.

The future course of immigration to Germany will be influenced by its impact on national interest and wealth, by humanitarian considerations and by the ability of German institutions to regulate immigration. None of these factors can be safely predicted now. Some German scholars believe that the increased level of immigration as experienced in the past few years might be a model for a new era of immigration after the fall of the iron curtain. The paper of *Ralf E. Ulrich* tries to quantify what dimensions such a development would imply. Demographic projections are used to illustrate the long-term effects of two immigration sce-

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narios under given mortality and fertility assumptions. *Ulrich* shows that if the current high level of immigration and the current naturalization regime were continued foreigners would reach a share of 30 percent of Germany's population within the next forty years. It is obvious that its institutions and people will have to adjust to a very different situation within a comparably short period.

Gunter Steinmann presents a theoretical model to analyse the economic effects of immigration on the income of natives. He shows that, in nearly all cases, natives will benefit from immigration in the long run, but that they will most likely be harmed in the short run. This is due to the "investment costs" (costs of integration) that natives are usually required to pay for some period of time to new immigrants. The assessment of immigrants' value, therefore, depends upon the time horizon of the natives.

The impact of immigration on public expenditures and revenues is among the key concerns in public opinion. *Ralf E. Ulrich* uses microdata from the German Socio-Economic Panel to estimate the net contribution of foreigners to the public coffer. He concludes that foreigners in the past decades until today paid more to the public households than they received. The main reason for this is their large net contribution to the pension system, due to their juvenile age structure. In the sixties there were also other reasons like a higher labor force participation, lower unemployment rate and lower absence from work due to illness. These factors gradually disappeared over the past decades. Given reasonable assumptions the foreign population in Germany will inevitably grow older. If the juvenile age structure loses its impact foreigners might become a net burden for Germany's public households in the future.

Native blue collar workers often fear the competition of foreigners, as they may induce declining wages and rising unemployment. This would have to be expected if natives and immigrants were substitutes. Substitutability might even be greater between foreign labor already in Germany and those newly arriving. The paper of *John P. De New* and *Klaus F. Zimmermann* outlines the issue in a framework with two types of labor, native blue collar and foreign blue collar. Examining the wage functions of blue collar natives and foreigners in a random effects panel model using a vast sample of micro data, they actually find that foreigners negatively affect the wages of Germans and themselves on the whole. Negative effects are experienced by blue collar employees with less than 20 years of experience, but these are outweighed by the much larger negative effects experienced by blue collar foreigners with more than 20 years of experience.

The German guest worker system was for decades characterized by the temporary nature of immigration. In the last decade this has changed. Foreigners increasingly consider their stay in Germany as permanent. The paper of *Viktor Steiner* and *Johannes Velling* analyzes guest workers' expected duration of stay in Germany within an econometric model taking into account the important distinction between permanent and temporary residents, where the expected duration of stay for the latter is differentiated in short-term, mid-term and long-term residents. The model is estimated for household heads with the first six

waves of the German Socio-Economic Panel, taking advantage of the panel structure of our data base to obtain efficient parameter estimates.

Immigration is sometimes seen as a factor creating additional unemployment in the host country. In their paper *Ira N. Gang* and *Francisco L. Rivera-Batiz* examine the effects of the presence of foreigners on the employment status of native-born German citizens. It also analyzes the attitudes toward foreigners displayed by German individuals in various labor market situations. They do not find evidence that higher concentrations of foreign-born workers are correlated with greater unemployment among native-born residents. They do observe, however, that unemployed Germans perceive that there is a larger presence of foreigners in their neighborhood, when compared to the employed. In terms of attitudes towards foreigners, there seems to be no pattern linking unemployed Germans to a more negative attitude towards foreigners in general. On the other hand, the authors found evidence that the unemployed feel that particular groups of foreigners, such as Turks and North Africans, generate job losses for the native-born.

A unique group of immigrants to Germany are ethnic Germans from Eastern Europe. They have been called Vertriebene in the past and are called Aussiedler today. After World War II more than 10 million Vertriebene came to Germany. Their integration was one of the major achievements of post-war West Germany. On the other hand Vertriebene made an important contribution to the German "economic miracle" of the fifties. The paper of *Ralf E. Ulrich* compares the success story of the fifties with today's conditions and the experience with the integration of recent Aussiedler.

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