



EconoMag

The show that demystifies economics

Mass Migration and the Economy ©

by Pierre Vercueil

Hi there EnglishWaves listeners and welcome back to another edition of EconoMag. What are we to make of the large numbers of people fleeing the Middle East for Europe? Rightwing groups have been quick to capitalize on the fear of a potential social and political threat to Europe's stability, whilst economists tend to see a large influx of refugees and migrants not as an obligation or a threat - but as a valuable opportunity. What happens when we add a large number of people to an already established economy? Let's look at the three primary effects in the short-run.

First, migrants and refugees lead to increased public spending – in other words, governments pay to house, educate and integrate new arrivals so they can become productive members of the local economy. Governments face the same financial constraints as you and I: if we spend more money on one thing, we have less for another - unless we take out a loan. But debt means less money for other things in the future. It's true small numbers of migrants or refugees have a negligible effect on the public purse, but an influx of 1 million people in a short timespan – like Germany has seen – can produce visible consequences for the government's budget. The silver lining would be that once new citizens have been successfully integrated they would eventually create a larger public tax base, leading to higher government revenues.

Second, migrants and refugees alter the local labor market. Skilled newcomers compete with locals for jobs and can end up displacing them, especially if their salary expectations are lower. This may have an impact on unemployment levels. Labor markets also often become more flexible in response to an influx of new workers, in that they take jobs that locals don't desire. A great example would be the UK's hospitality industry, which now employs thousands of migrants for housekeeping jobs in hotels. Conversely, countries with aging populations, such as Germany, benefit from migration as the number of working-age members in the economy increases. For instance, immigrants bring different skills and aptitudes they can transmit to non-immigrant colleagues. This can heighten labor competition, increasing incentives for natives to acquire new skills and become more productive.

Third, an influx of refugees and migrants increases aggregate demand in the economy. Think of it as migrants representing a new market for local goods and services once they integrate and start working. They not only need to buy food and other essential goods, but will also eventually want to spend money on leisure and other goods. Overall this can lead to an increase in real income and GDP for host countries as local economic activity heightens.

Whilst it's true that many refugees and migrants are well educated or highly skilled, not all are. There is nothing automatic about their success, either in the labor market or in society as a whole. What's more, some European countries have shown to be more successful than others in integrating immigrants. For example, in France, Germany, and Finland there continues to be significant differences in school performance between native children and the children of migrants.

Successfully integrating migrants and refugees will neither be simple nor without costs, and constitutes a social, political, and economic project spanning years or decades, not weeks or months. But with good will and hard work, it's possible to increase the economic welfare of everyone in the process. Join us again next week for a brand new episode of EconoMag here on EnglishWaves.