



# International Migration: Seizing the Opportunity

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Munich Economic Summit

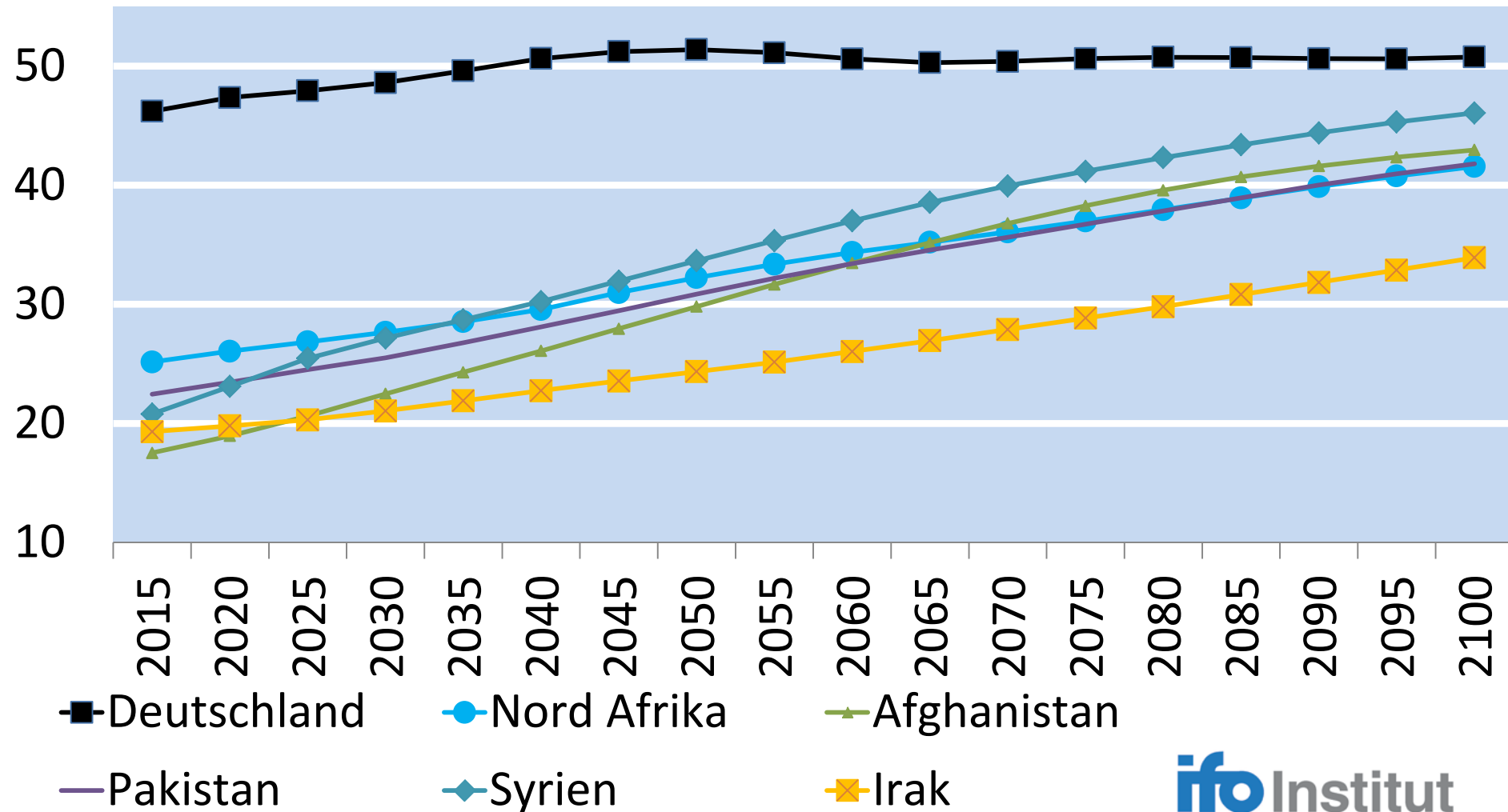
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# AGENDA

- **A huge potential**
- **Natives gain from immigration (on average)**
- **On the quality of immigrants (and emigrants)**
- **How to create mutual benefits**

# Push factor: Youth bulge

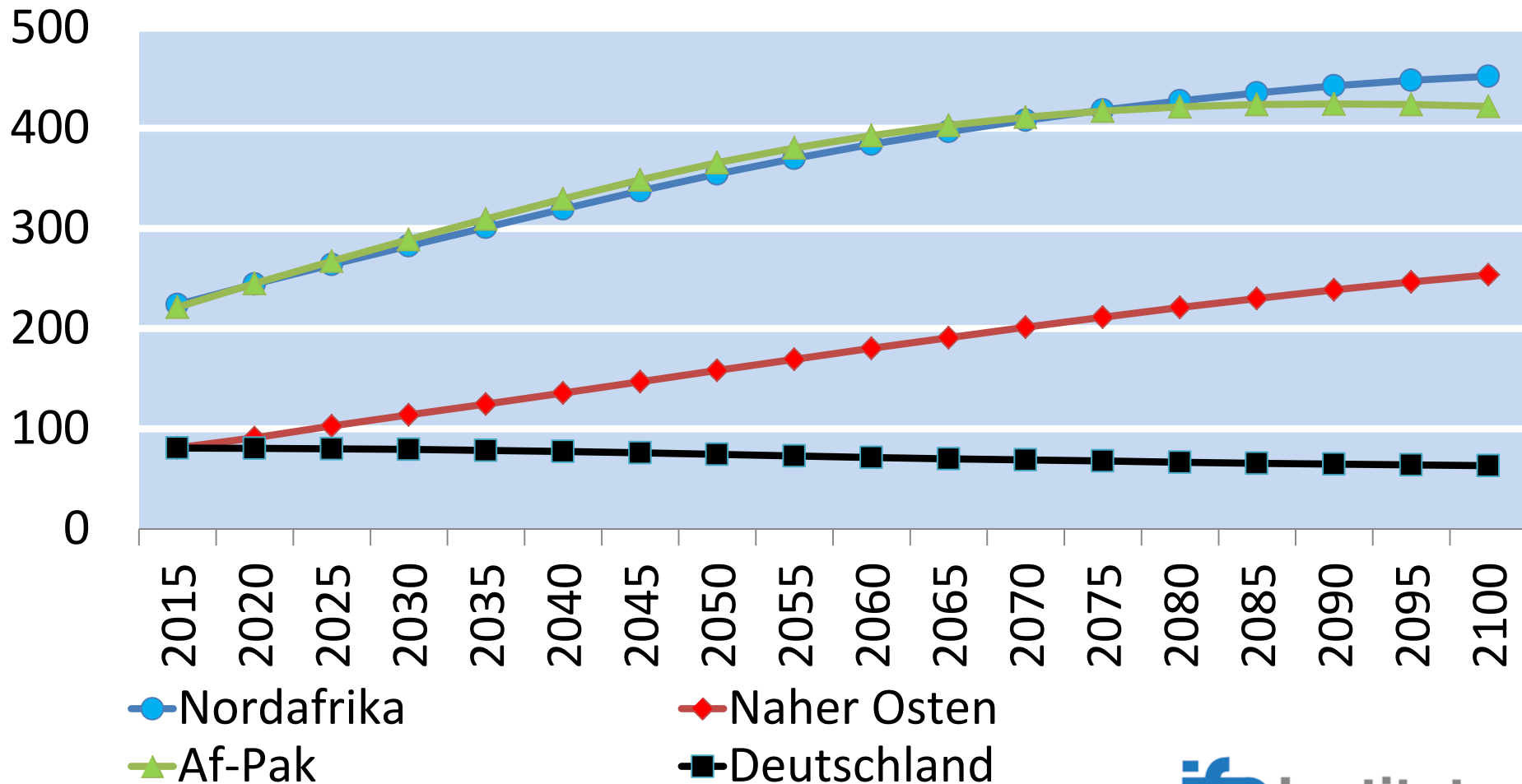
UN forecasts, million Persons, „some“ migration included



Source: UN World Population Prospects, Medium Variant, Oct. 2015

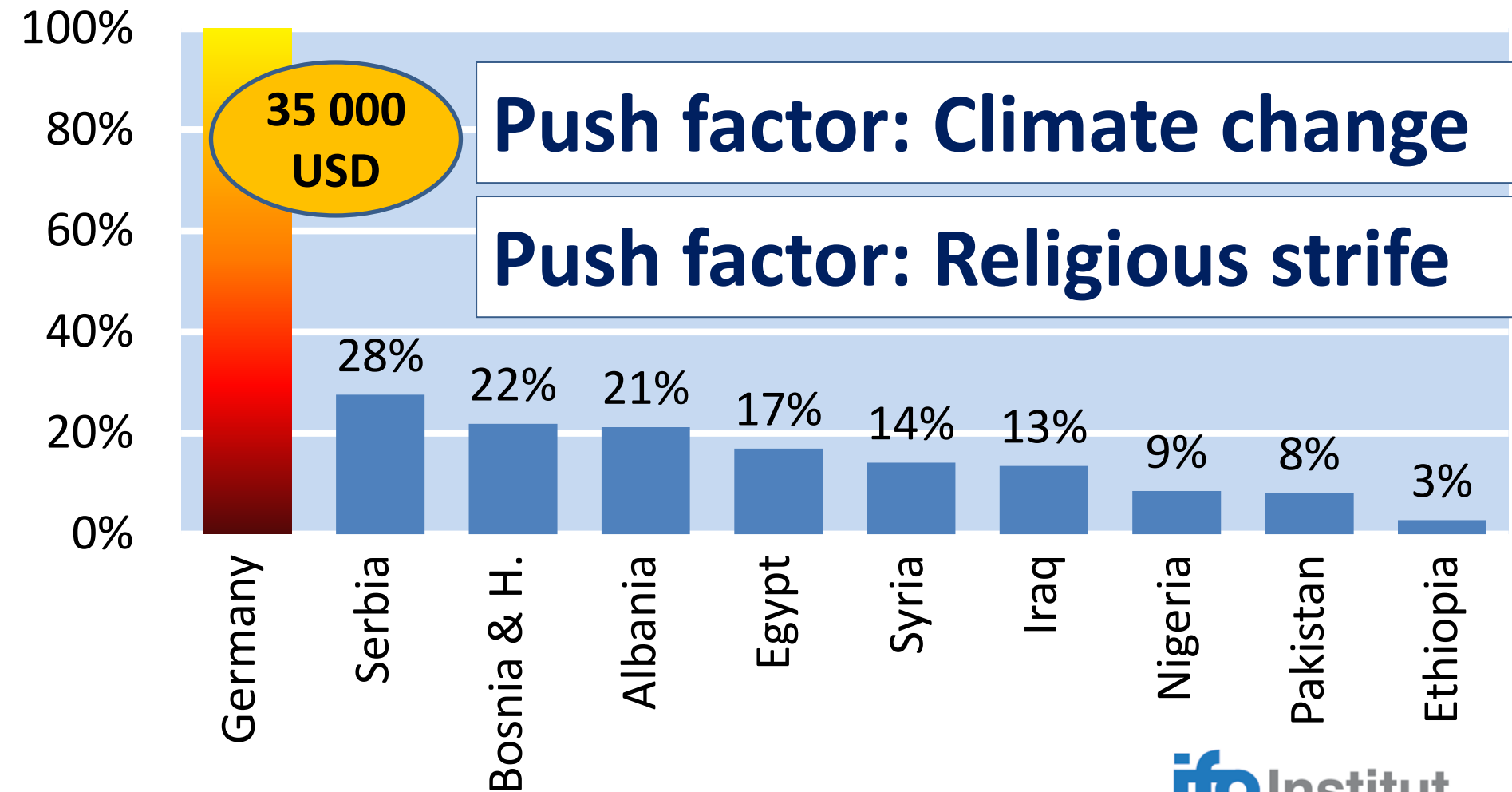
# Pull factor: Demographic divergence

UN forecasts, million Persons, „some“ migration included



# Pull factor: Development gaps

Per capita incomes in PPPs (USD, 2005 prices), Germany = 100%, 2014



Quelle: Penn World Tables 8.1.  
Expenditure-side real GDP at current PPPs (in mil. 2005US\$).



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# The effects of immigration on natives

## Assumptions: neoclassical labor market

1. Downward-sloping labor demand 
2. No labor market imperfections 
3. No welfare state 
4. Static economy 

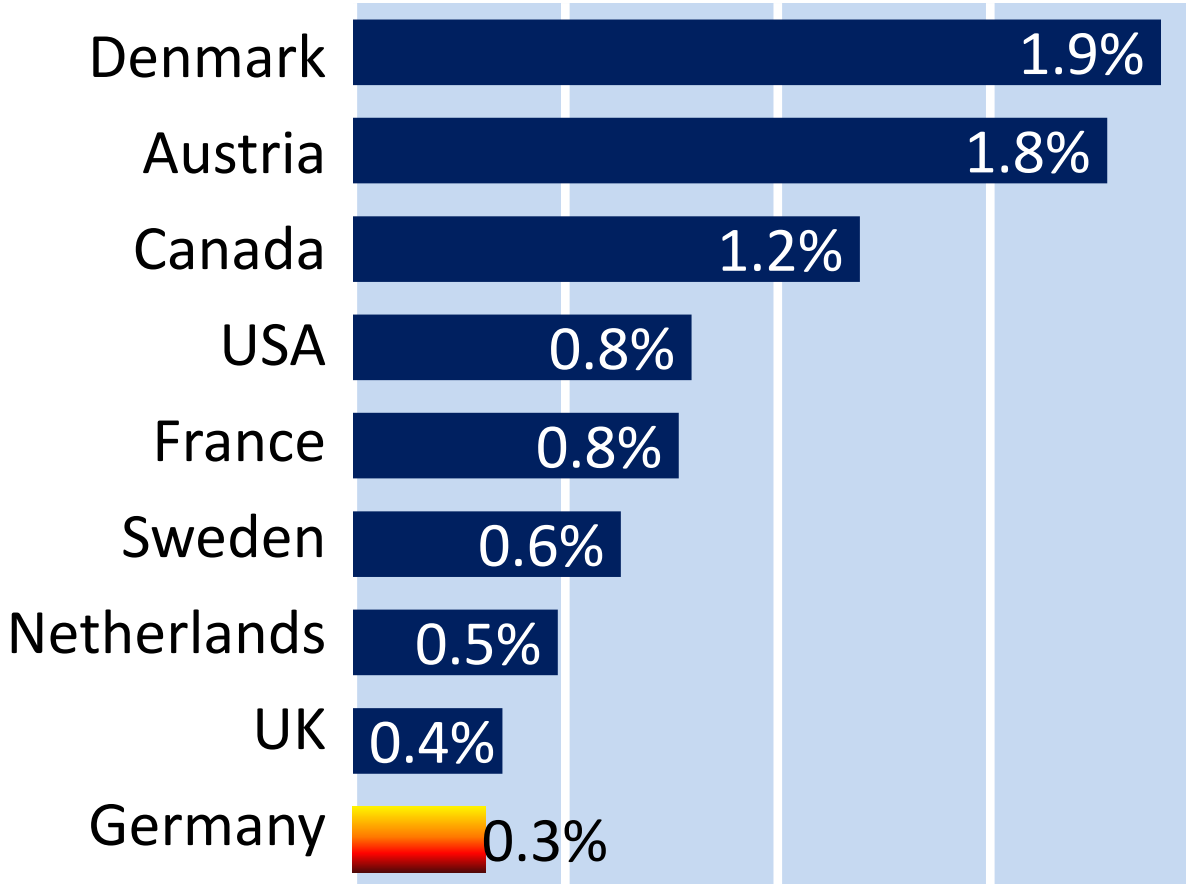
- Wages of competing workers (low skilled) 
- Returns to non-competing factors (capital, highly educated) 
- Distribution effects
- But winners gain more than losers lose: **aggregate surplus**
- Opposite effects in sending countries
- Short-lived effects

# Ifo migration model

## Integrated approach

- Immigration surplus
- **Labor market imperfections:**
  - Unemployment
  - Wage bargaining
- **Welfare state:** redistribution through transfers and public goods

## Native income, status quo vs. autarky, 2012



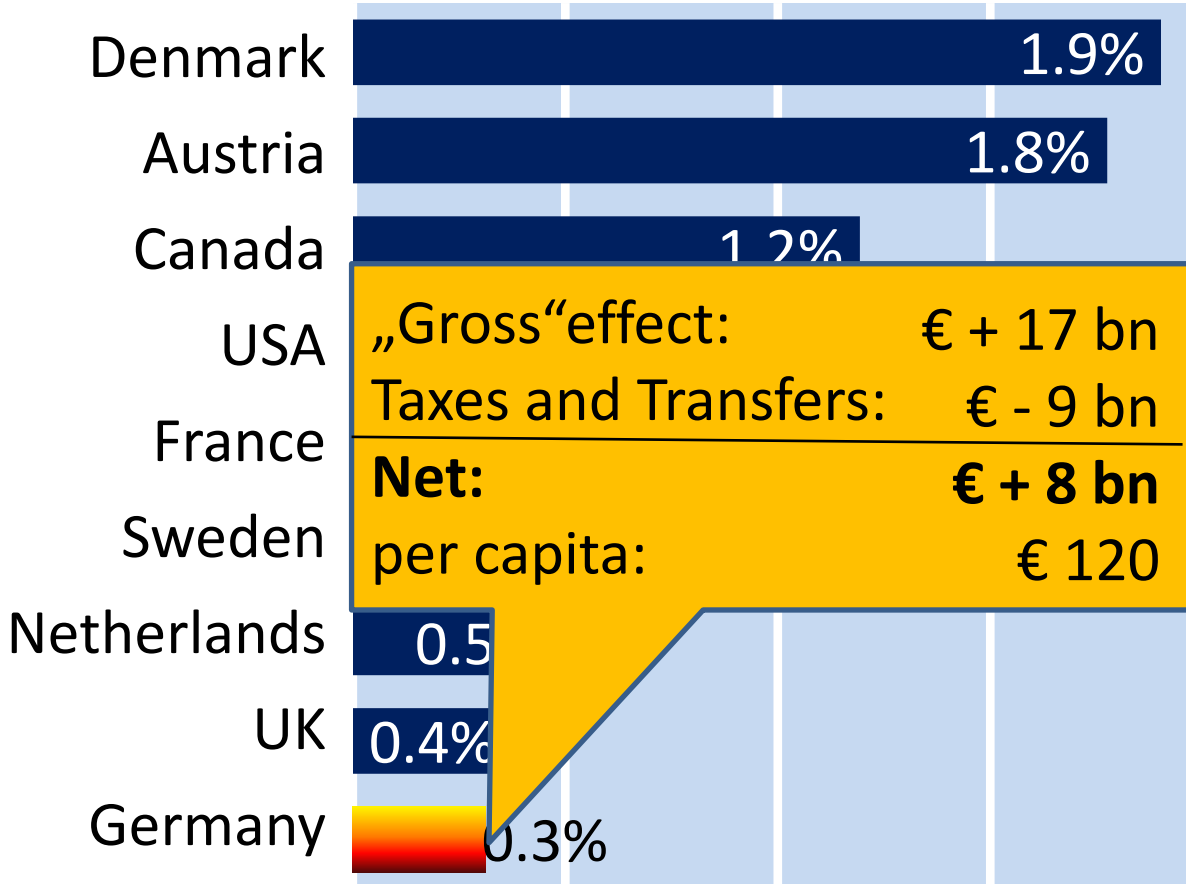


# Ifo migration model

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# What factors favor aggregate gains ?

<u>Requirements</u>	<u>Germany</u>	<u>Ø OECD</u>
• Share of high-skilled immigrants relative to natives: <b>HIGH</b>	0.7	1.0
• Unemployment rate of low-skilled immigrants relative to natives: <b>LOW</b>	1.8	1.6
• Degree of redistribution between rich and poor:* <b>LOW</b>	46%	45%
• Size of immigration flows:** <b>MEDIUM</b>	15%	17%

\* Government spending as a share of GDP

\*\* Share of immigrants in total labor force

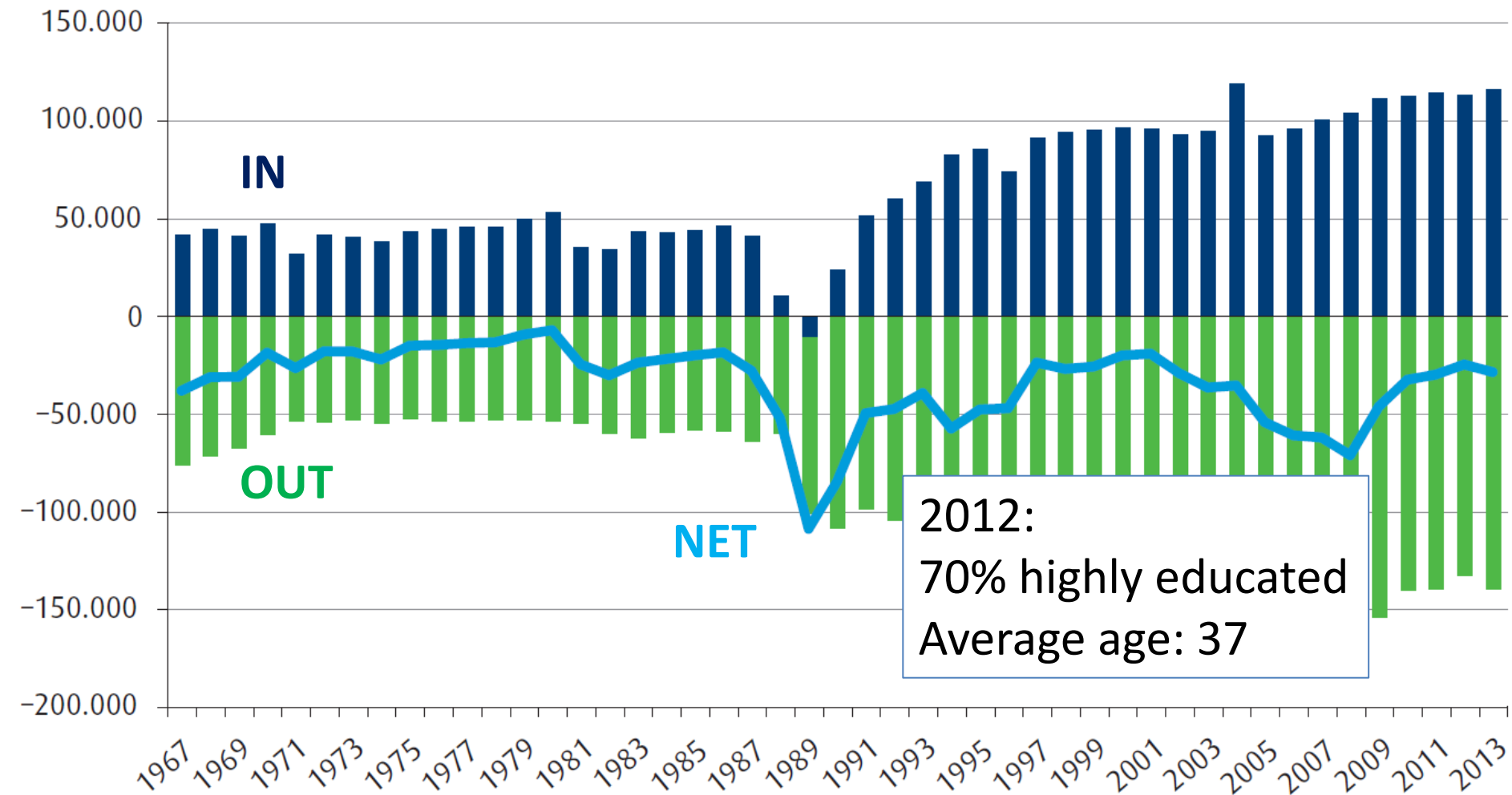
Source: Battisti, Felbermayr, Peri und Poutvaara, 2014.

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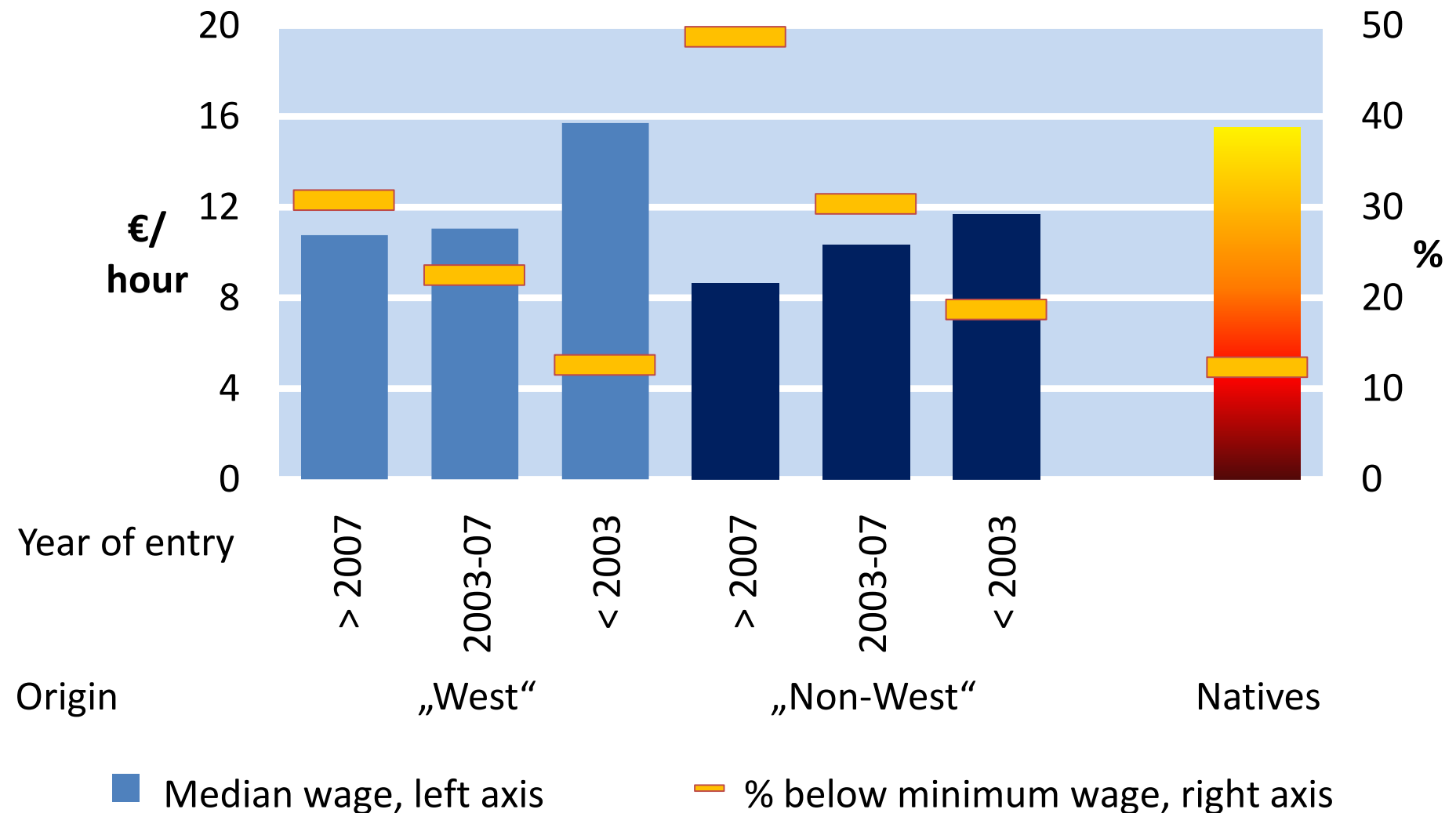
# Germany: Emigrants positively selected

## Emigration and immigration of German citizens, 1967-2013



# Germany: Immigrants negatively selected

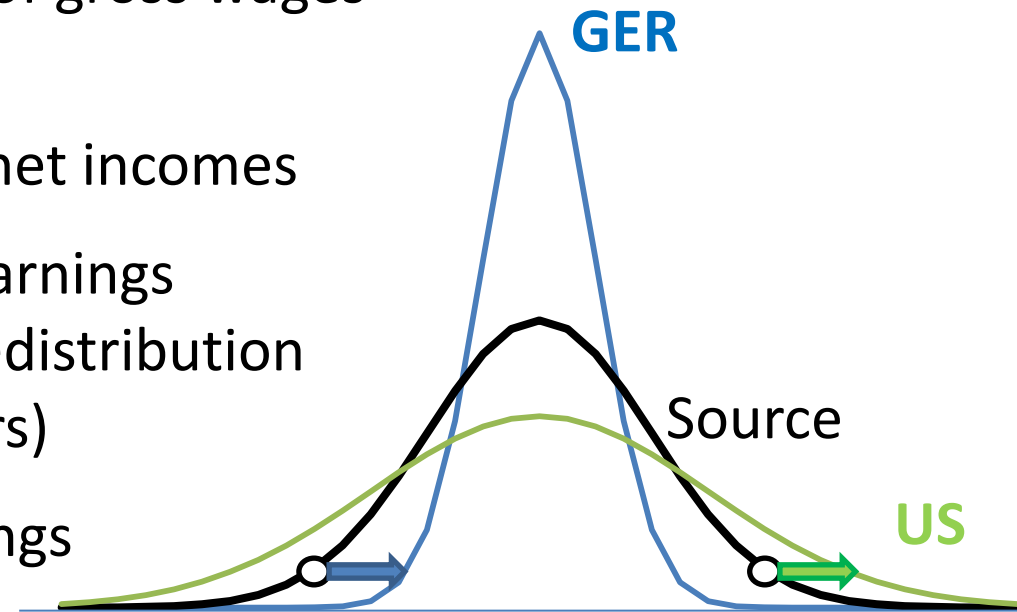
Germany, 2013, gross wages



Source: Battisti et al., 2015. Data from SOEP.

# What drives selection ?

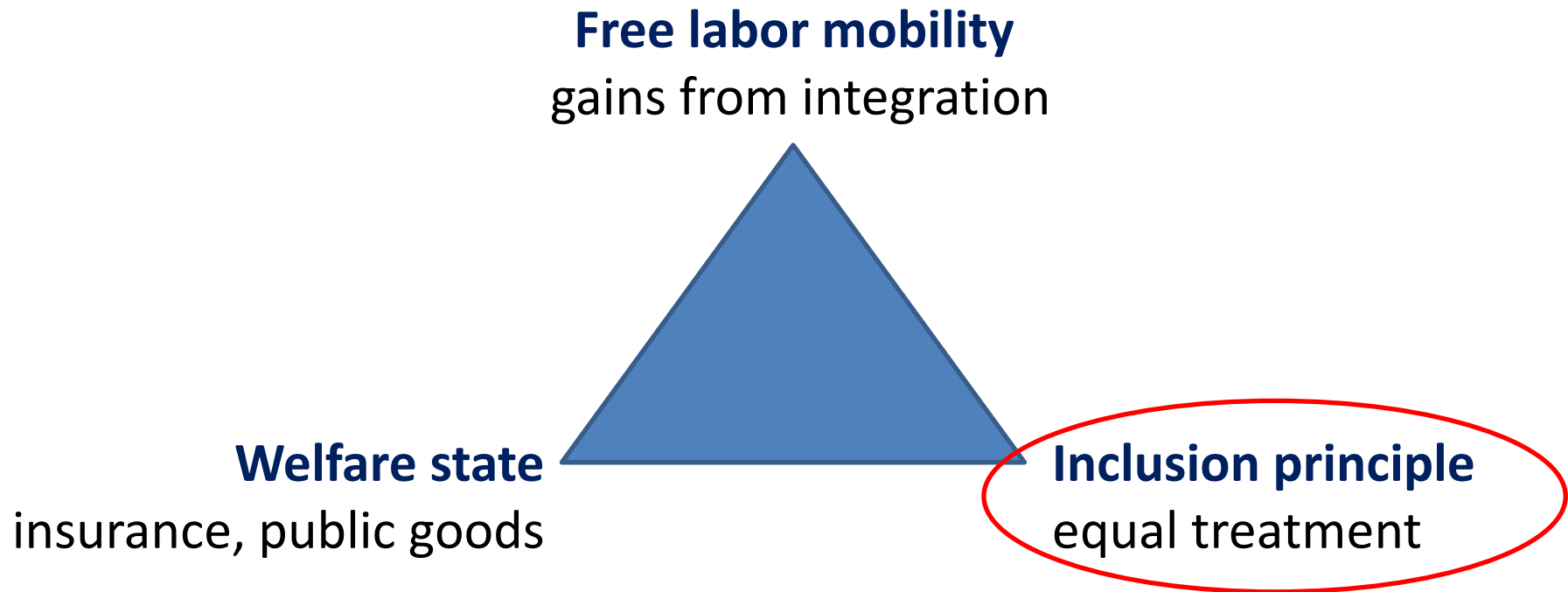
- **Policy:** Canada, Australia, ...
  - **Relative scarcity:** distribution of gross wages
  - **Welfare state:** distribution of net incomes
    - Individuals with high earnings potential: prefer low redistribution (low taxes, low transfers)
    - Opposite für low earnings potentials
- A problem for host countries with generous welfare states and regional / global efficiency



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# An impossible trinity





# What is needed for a success story ?

Mutual benefits for migrants, host country populations and source countries

## Extra-EU migration

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- A proactive, qualification-based immigration policy
- Cooperation with source countries: minimize red tape, ensure consistency with development goals

## Intra-EU migration

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- End the inclusion principle to guarantee productive efficiency and safeguard social systems
- Improve portability of social security claims

**Promote functioning of labor markets !**