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Immigration Policy and the Labor Market

The German Experience
and Lessons for Europe

 Springer



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With 23 Figures and 6 Tables

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Preface

The German policy debate on immigration and integration issues has been revived by the passing of the first comprehensive immigration law in January 2005. This law marks a historical turnaround after this crucial policy field had been dangerously neglected over the past decades. Since German policymakers previously focused on strategies to curb immigration, effective integration programs were rare. While the new immigration law still has deficiencies (which are to be analyzed in this volume), its implementation raises hopes that a strategic immigration policy accounting for economic criteria could well be established over the medium term. This prospect becomes all the more important as many industrialized nations and the European Union as a whole are increasingly moving issues of immigration, integration and the labor market towards the top of their agenda. Against this background and the growing competition among aging western societies in filling shortages of high-skilled labor, Germany – despite the new law – still lags far behind other nations in terms of immigration policy. German competitiveness in this field is still limited and may even further decrease if policymakers were to take a break now rather than continuing on the new path after painfully pushing the bill through parliament. The fact that Germany is still a leading European immigration country based on the annual inflow of foreigners is by no means contradictory to these findings. One of the key problems is that Germany remains an attractive receiving country for those who would be unable to meet the immigration requirements of other nations.

Germany negligently forgoes the enormous welfare gains associated with an active “quality control” of immigration. The analysis of the inevitable trend towards a shrinking and aging population shows that an immigration policy based on economic demand – although it cannot single-handedly solve the funding problems of the social security systems – must become an integral part of any larger strategy to deal with the challenges of demographic change.

In the light of first experiences with the new immigration and integration law, this book provides a comprehensive account of the immigration situation in Germany. It develops future perspectives that are not confined to Germany but can be applied to many other European nations as well. The book is based on intensive research and advisory activities by the Institute for the Study of Labor (IZA) in the field of migration policy. IZA has developed a national and international reputation as a think tank on immigration issues. It has provided policy advice to the British and German governments, to the European Commission, and to U.S. government agencies. At the core of each IZA analysis is the deep conviction that an immigration policy consistently geared towards economic needs is the best guarantee for a successful integration of immigrants into society and the labor market.

A summary of German migration history and policy is followed in chapter 2 by an assessment of the new immigration law. The subsequent chapters 3 and 4 describe the difficulties of estimating future labor demand and the scope of immigration required to meet the demographic needs. Chapter 5 explores the potential tools of an immigration policy committed to both short-term and long-term objectives. It also provides an overview of the existing systems for an active control of immigration in Canada, Australia, New Zealand and the United States. Chapter 6 presents a proposal for a future German migration policy based primarily on economic criteria. Chapter 7 again broadens the perspective and outlines future tasks of migration policy. This volume is the first book that combines a scientific evaluation of the situation in Germany before and after the implementation of the new Immigration Act with concrete policy proposals for a comprehensive future migration and integration policy at the national and European levels.

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1 Introduction: Why Do Germany and the EU Need a New Immigration Strategy?

Developed economies around the world are becoming increasingly worried about migration issues. On the one hand, questions of homeland security and immigrant integration, often accompanied by new ethnic rivalries that give rise to violence and terrorism, are major causes for concern. On the other hand, policymakers in many countries are contemplating ways to promote economically motivated immigration. Despite a number of contradictory issues, this field offers tremendous scope for an improved immigration policy.

Still ahead in this respect are the traditional immigration countries such as Canada, Australia and New Zealand, whose points systems have served well to achieve a proper balance of qualified, economically “fitting” labor immigrants. Even without any sophisticated system of selection, the United States has miraculously managed to attract the world’s best and brightest as well as the much needed low-skilled workers. Now the U.S. public debate is centering on whether to establish a guest worker system for the purpose of curbing illegal immigration, mostly from Mexico.

In Europe, the United Kingdom has assumed a pioneering role by courageously implementing a points system to better select immigrants, while other EU member states have tightened immigration regulations for refugees and immigrants from non-EU member states. France and Germany, still pondering reforms of their immigration policies, are caught between a pessimistic stance towards integration, a stronger focus on language skills, and measures to attract foreign high-skilled workers.

Until now, European treaties are still limited to the development of mutual standards concerning the admission of immigrants and refugees as well as the agreement on the joint fight against illegal migration. Consequently, they leave sovereign rights to formulate immigration and integration regulations mostly untouched. In recent years, however, the European

Commission has made several attempts at developing an EU-wide policy for immigration, asylum, and integration. In 2005, following various other initiatives of the previous years, the Commission published a “Green Paper: On an EU Approach to Managing Economic Migration,” which holds that “The Commission believes that the admission of economic migrants is the cornerstone of any immigration policy and that it is therefore necessary to address it at [the] European level in the context of the progressive development of a coherent Community immigration policy.”¹ The “Policy Plan on Legal Migration,” also published by the European Commission at the end of 2005, aims at advancing the political debate in the EU member countries.² And only recently, the Bureau of European Policy Advisors (a Directorate General of the European Commission that reports directly to the president and acts under his authority) submitted a study on “Migration and public perception”, which has brought new impetus and fresh thoughts to the European debate and hopefully fosters the path to a more open and flexible political agreement at the EU level.³

Of course, this project will be confronted with the almost insurmountable problem of an appropriate allocation of costs and benefits among the 25 member states. However, due to the increasing shortage of skilled labor in most of the Western EU countries, there is a growing pressure on policy-makers to agree on a common strategy that centers on economic criteria. This strategy is needed particularly in view of the global competition for high-skilled international human capital. In this competition, Europe has continuously lost highly qualified migrants to the traditional immigration countries while the majority of low-skilled migrants has chosen to come to Europe.⁴ Hence the EU Commission recommends devising “a common special procedure to quickly select and admit such [highly qualified] immigrants, as well as attractive conditions to encourage them to choose Europe,”⁵ while a remarkable German-French policy initiative argues in favor of temporary “circular” labor migration from developing countries.

Dealing effectively with the competition for international human capital definitely requires a common EU migration strategy. It must focus on the

¹ Commission of the European Communities COM(2004) 811, p. 12.

² Commission of the European Communities COM(2005) 669.

³ See Canoy et al. (2006).

⁴ See Fargues (2005).

⁵ Commission of the European Communities COM(2005) 669, p. 7.

adequate allocation and selection of immigrants in order to guarantee a successful integration in the labor market. This book contains some suggestions for future German policy initiatives that may as well be adopted by other EU member states and become part of an at least partially harmonized EU migration strategy.

Germany has been the EU country with by far the most extensive influx of immigrants, but also of refugees, for over 40 years now. The fact that their entry was for the most part uncontrolled, as will be shown in the following on the basis of the legal and actual development of migration history, is both the cause and the result of a painfully long dispute about whether the country actually was an “immigration country”. Nonetheless, German society has undergone significant change during the course of time. Stories of success and failure of integration reflect the long-standing “normalcy” of the immigrant situation beyond the struggle for a larger strategy of migration and integration policies. Moreover, the sheer scope of immigration into Germany clouds the fact that high-skilled individuals too often opt against coming to Germany – either because they plan to immediately emigrate to the U.S., the UK, Canada or Australia, or because Germany serves merely as temporary host or transit nation until entry permission for one of those countries has been granted, or because existing integration services are regarded as insufficient. A determined effort must be made to attract this human capital.

The general ability of the government to constructively regulate immigration has been proven by the example of the initially generous acceptance of ethnic Germans from Central and Eastern Europe, which has later been replaced by a rather strict acceptance system relying on language proficiency and cultural knowledge as well as on immigration quotas. Against this background, it is all the more astounding that similar regulations concerning the influx of foreign immigrants have long been opposed.

Persistent unemployment and a simultaneous shortage of skilled workers are typical of current conditions in the German and many other labor markets. This state of affairs, which is difficult to explain in general public debates, is mainly caused by the pressures on unskilled and less skilled workers to adapt to fast technological progress. As the less qualified increasingly fail to find employment, the shortage of well educated and trained employees is rising. Modern labor markets and production processes require substantial human capital, which is becoming the most important factor of produc-

tion. As this trend continues, the number of jobs for the unskilled dwindles, while the supply of skilled labor is short and many vacancies cannot be filled. The widening gap may well develop into a critical political and social issue.

The implications analyzed in the present book are complex, and the alternatives available to respond to the challenges of a shortage of skilled labor in an environment of high unemployment are not always straightforward. It will certainly not be sufficient to fight unemployment with more education and training. The impact of vital investment in education is not immediate and will therefore not provide an answer to urgent short-term needs. Action taken to activate individuals currently not seeking employment will likewise produce medium-term effects at most and will not supply the qualifications needed now. For this reason the questions must be raised whether an immigration policy guided by short-term labor market considerations promises enhanced economic efficiency and how such a policy would have to be organized in the first place.

Under long-term aspects, demographic developments are a key concern. Native populations will be decreasing sharply in Germany and in many other countries over the next few decades. A minor share of the present shortage of skilled labor is already due to demographic change but this share is likely to grow. The effects will be both quantitative and qualitative. On the one hand, the absolute size of the working population will drop significantly, as society becomes older, and, on the other hand, countries in which these changes occur will be confronted with a decline in qualified human capital, which will be felt hard as demand for labor remains unaltered or even rises.

In principle, a number of different courses of action are open to governments to accommodate these long-term trends in a manner that accounts for the needs of labor markets and social security systems. Options include a longer working life through an early entry into a professional career and late retirement, the activation of the unemployed and persons currently not seeking employment, an increase in the number of women in the labor force and immigration controlled by economic criteria. Each of these options would appear to be suitable to generate positive effects but, if implemented as a stand-alone measure, only with limited success whatsoever. Therefore, a mixed approach would seem appropriate, including a dual immigration strategy which pursues both short-term and long-term objectives.

Short-term needs call for a system which promotes the temporary coverage of skilled labor demand that has been identified. Such a system would at the same time alleviate the unskilled labor unemployment problem because employment opportunities for the unqualified generated by skilled work decrease as jobs for skilled labor remain open. It is a reasonable assumption that the employment of every skilled person enhances the prospects of the less skilled. In addition, any short-term immigration policy that follows economic reasoning must avoid the entry of unskilled labor where migration can be controlled and specific shortages do not exist.

Regarding long-term objectives, it would appear appropriate to develop an immigration strategy which reflects, of course, demographic trends and creates consistency both in quantitative and in qualitative terms, but remains sufficiently flexible to respond to changes in political or social conditions. The approach to be adopted will have to distinguish between controlled and uncontrolled immigration and could define a mixed system of quota and selection criteria in order to attract permanent labor immigrants to top up immigration to a previously defined total number of migrants entering the country.

Any national immigration policy must further be tuned to the international background against which it is set. Potential immigration from the new European Union member states must be one of the direct inputs into the strategic concept. Germany and Austria are the only “old” EU member states still adhering to the “interim period” that restricts freedom of movement for citizens of the “new” EU accession countries. Other old member states have already opened their labor markets and experienced positive economic effects caused by an East-West labor migration that has turned out rather limited in scope.⁶ Germany would have been well-advised to compete for skilled labor from the countries of Central and Eastern Europe from the start, and to rely on their positive impulses for the labor market and the economy, rather than to accept the risk of losing this skilled labor force to other EU countries or other regions of the world such as America.

Dynamic economies cannot evade the need for an economically motivated immigration policy. In the labor market, migrants are still in short supply, and their educational integration has been less than satisfactory even in the second and third generations. The overabundance of native low-skilled

⁶ See Gilpin et al. (2006) and Doyle et al. (2006).

labor, coinciding with a lack of highly qualified personnel, forces all developed countries to compete internationally for an active redesign of immigration policy. The awareness of important economic realities must be increased particularly in countries, such as Germany, where immigration and integration policies have so far been confined mainly to patchwork regulations.

2 The Migration Issue in Germany

Over the second half of the 20th century, Germany has experienced the highest population gains from immigration in Western Europe. Two parallel flows of people have surged into the country: immigrants of German descent on the one hand and, on the other hand, foreigners without German ancestry including labor migrants, dependent family members, refugees and asylum-seekers. There have been substantial differences in the intensity and composition of these flows over the years, shaped by a series of historical events. First, the new layout of Europe after World War II led to a massive influx of largely displaced ethnic Germans from Eastern Europe. More than 10 million people had resettled to the area of East and West Germany by 1950 (Salt and Clout, 1976). During the long, ensuing period of economic expansion, stopped by the first worldwide oil shock in the early 1970s, acute labor shortages led to the active recruitment of workers from Southern countries. It is a distinctive feature of this development that diverse populations were drawn into what had been an ethnically relatively homogeneous country. A third immigration wave occurred after the fall of the Berlin Wall. On the one hand, ethnic Germans became free to move to Germany. On the other hand, civil conflicts in the aftermath of the collapse of the Eastern Bloc led to a large flow of asylum-seekers and refugees. Immigration legislation in Germany changed several times in response to these historical circumstances.

In this chapter we provide a brief overview of German immigration policy and the corresponding development of migration. Some knowledge of the historical experience allows a better understanding of the challenge to establish a sound migration policy in a country that despite its long experience of population movements across its borders does not consider itself an immigration country.