Macroeconomic Research

The German Refugee Crisis: A Macroeconomic Analysis

IB Economics

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Diagram 1 demonstrates the effect of this increase in production possibilities. According to the supply-driven neoclassical model, the influx of refugees (once they become integrated within the economy) will eventually cause the long-run aggregate supply to increase from $LRAS_1$ to $LRAS_2$. This would thereby lead to an increase in real GDP (and thus national income) from Y_1 to Y_2. Logically, because economic growth allows civilians to have more income and buying power, the aggregate demand would also increase from AD_1 to AD_2.

The German refugee crisis would bring economic growth through an increase in the labor force, thereby increasing human capital. Many incoming migrants are of working age and are actively seeking a job, meaning that they are candidates for employment and could thus contribute to an increased national output. This is especially valuable to Germany, who faces a decrease in its native working age population. There are about one million vacant jobs in Germany (Euronews) and that number is poised to increase because the percentage of the population that is too old to work is increasing. For example, about 20.5 percent of the German population in 2005 was above the age of 65 (when citizens are deemed to be entering retiring age); that number increased to 21.2 percent in 2015 and is projected to increase to 25 percent in 2025 (Btlas). Meanwhile, the overall population of Germany is expected to decline in the process

Germany could use the case of immigration into the United States in the late 1990s as a model to generate economic growth. The amount of people coming into the United States steadily rose throughout the decade and reached a peak in 1999, before dropping off to a much lower level into the new millennium (Passel). Meanwhile, the GDP growth rate (the principal indicator of economic growth) in the United States has overall risen in the 1990s after more than a three percent decrease in 1991. In the latter part of the decade, when immigration into the U.S. peaked, the GDP grew at its most stable rate, which was constantly above three percent (Trading Economics).

The 1990s immigration into the United States has also had positive long run implications, in terms of economic growth. By 2011, immigrants contributed towards 14.7 percent of total output and comprised 16 percent of the labor force despite making up only 13 percent of the population (Costa). Therefore, immigrants have been able to integrate into the American economy effectively, despite the social problems that many natives claim they create. Likewise, the German refugee crisis can help fill in vacant jobs and provide economic growth that is sustainable in the long term (since growth is necessary to employ the growing workforce of a nation experiencing immigration).

B. Unemployment

In order for output to increase up to the [increased] level of production possibilities, a nation must put its unemployed resources to use. In the case of the German refugee crisis, members of the newly-refueled labor force must find jobs. If these refugees were to simply enter the labor force without finding employment, the unemployment rate would increase and the increase in human capital would be in vain.

Diagram 2 shows the effect of a decrease in unemployment on the production possibilities curve after an increase in the economy's productive capacity. The increase in human capital (and thus potential output) is shown by the outwards shift in the production possibilities curve from PPC_1 to PPC_2. This means that a nation's economy can produce more of both percentage point throughout 2016 (Trading Economics), indicating that the economy is still not fully recovered from the global recession of 2008, although the economy is still growing and the unemployment as of 2016 was low at 4.3 percent (CIA). Nevertheless, since the labor market is adding jobs fairly slowly, immigrants may increase German natives' unemployment in the short run (Costa).

However, in the long run, since the immigrants could help foster economic growth by

In addition, they often bring in higher crime rates with them, making a nation's society more unskilled immigrants would be matched with fitting jobs by giving them access to labor markets (such as by overcoming the obstacle of geography). Meanwhile, refugees with marketable skills would receive training to acquire the small culture-specific abilities that they lack (such as the ability to speak German) in order to work up to their full capabilities. The solution is increased government spending (both directly and indirectly through firms), also known as an expansionary fiscal policy.

Diagram 3 shows the effect that an expansionary fiscal policy would have on the German economy, according to the demand-driven Keynesian model. Before the refugee crisis, Germany unjustly rely on them. Unemployment benefits would discourage current workers to work, as seen in Spain after the Great Recession (AFP News).

However, provided that the German government undertakes an expansionary fiscal policy to increase the aggregate demand from AD_1 to AD_2, combined with the benefit of an increased labor force (an increase in aggregate supply from AS_1 to AS_2), the average price level will stay constant at APL_1 while real GDP will increase to Y_3. This increased real output will raise the disposable income of both native workers and refugees while growing the German economy. In other words, inhabitants of Germany can afford to spend more in an economy that provides more goods and services.

The German government is already working on culturally and socially integrating the refugees, paying to process them into the country as well as providing them with food and

Since Germany may have more than one million refugees resulting from the crisis once they are all processed, the proposed government action will be costly. It will need to include the provision of basic necessities as well as career-specific training and job preparation, while it may be difficult to efficiently allocate workers to specific industries with job openings. However, this large initial government investment would be worth it because the economic growth would help overcome a possible deficit and outweigh the initial value of the government spending (given the Keynesian multiplier effect). According to Ian Goldin, the founding director of the Oxford Martin School at Oxford University, "[Government fiscal policy] is both a short term and a long term investment. In the short term it provides stimulus to the German economy which will grow about 0.2 percent faster than it would have without the refugees. In the longer term – there was a situation with one of the lowest fertility rates of the world in Germany and that will be vital for the long term sustainability of the German economy" (Euronews). Furthermore, the increased supply of workers in the economy is in vain without the employment of resources, which government spending will help ensure.

There is strong international support for the refugees to make a positive impact on the German economy. The Organization for Economic Cooperation and Development (OECD) prioritizes the oversight of migrant workers to make sure that they (as well as their children) receive education and opportunities equal to those of natives in order to contribute towards economic growth. The organization recognizes the necessity and value of migrants, especially in countries with aging populations such as Germany (OECD, pg. 29-31). Promotion of refugee integration, which Chancellor Merkel already embodies, from foreign countries will thereby expedite the process of all of its facets, including economic integration. Therefore, immigrants will be a key determinant in solving what are arguably the main long-term problems of the German economy, making the refugee "crisis" somewhat of a blessing.

AFP News. "Spain struggles with staggering unemployment." *YouTube YouTt*