For good or ill

THE welcome accorded the 1.1m refugees arriving in Germany in 2015 is cooling fast. On January 19th 44 members of parliament in the governing coalition sent a cross letter to their boss, Angela Merkel, who is the refugees' chief advocate. "Our country is about to be overwhelmed," they complained. Yet more migrants may be on their way: there are 8m displaced people within Syria, and 4m more in neighboring countries.

Humanity dictates that the rich world admit refugees, irrespective of the economic impact. But the economics of the influx still matters, not least because it colors perceptions of the new arrivals. One fear is that immigrants will compete for work and drag down wages. Another is that they will pinch the public purse.

When it comes to their pay packets, Germans need not fret. Evidence suggests that immigration has only a small impact on employment or wages. Unskilled workers and existing migrants are most vulnerable, as they are the closest substitutes for the new arrivals. But the effects are still measly. For example, a recent paper by Stephen Nickell of Oxford University and Jumana Saleheen of the Bank of England found that a ten-percentage-point rise in the share of migrants working in menial jobs, such as cleaning, depressed wages for such positions by just 2%.

This wage-dampening can even have positive side-effects. Mette Foged and Giovanni Peri studied refugees arriving in Denmark between 1991 and 2008, and found that they did nudge low-educated natives out of lowly jobs. But rather than sulking on the dole, the displaced natives switched to jobs that involved less manual labour, sometimes with higher salaries.

The evidence on the likely fiscal impact of refugees is murkier, as adding up the tax paid and benefits received by any individual or group is tricky. Those who try tend to find only small differences between immigrants and natives. The OECD, a club of mostly rich countries, assessed the effect of immigrants on its members' finances in 2007-09. It found they made a net fiscal contribution of around 0.35% of GDP on average, with relatively little variation from country to country.

But the experience of past immigrants may not be much use in assessing the impact of the new lot. Immigrants were a fiscal burden in Germany in part because lots of them are pensioners, who tend to drain the public finances. The new arrivals, in contrast, are young, with a long working life ahead of them.

There are also differences between refugees and other legal migrants. A new paper from the IMF uses existing immigrants to Europe from Afghanistan, Eritrea, Iran, Iraq, Somalia, Syria and the former Yugoslavia as proxies for the latest wave of refugees, since most of them come from those countries. Relative to other immigrants, people from those countries who have been in Europe for less than six years are 17 percentage points more likely to rely on benefits as their main source of income and 15 percentage points less likely to be employed, even after controlling for things like age, education and gender. This gap does shrink the longer the migrants have been in Europe, but it is still there for refugees who have been in residence for more than 20 years.

These barriers suggest that it will be a while before refugees pay more in tax than they receive in state support. A study of Australian refugees found that they paid less tax than they received in benefits for their first 15-20 years of residency. Of course, the newest arrivals in Europe could be very different. Information on their education is scarce, but there are some glimmers of evidence that they are relatively skilled. Still, given that most European countries redistribute income from rich to poor, as long as they are poorer than the average native, they will probably receive net transfers.

The influx will not be bank-breaking, however. In the very short run, the IMF estimates that refugees will add around 0.19% of GDP to public expenditure in the European Union (0.35% in Germany) in 2016. This will add to public debt, and given higher joblessness among refugees, unemployment will rise. But looking only at their fiscal impact is too narrow a focus. Later on, as the new arrivals integrate into the workforce, they are expected to boost annual output by 0.1% for the EU as a whole, and 0.3% in Germany. They should also help (a little bit) to reverse the upward creep of the cost of state pensions as a share of GDP, given their relative youth.

Of course, these figures are highly uncertain, and depend on how many more refugees arrive, how quickly their asylum applications are processed and how soon they find jobs. Governments can make their impact more benign by accelerating all those steps.

Reference:

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