

# The Immigration of Knowledge: The Relation of Immigration, Integration and the Free Market in Europe and especially in Germany

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## I. The Challenge of Immigration: The German Example

- Migration is an issue with global implications. Millions of people are leaving their homes as migrants or refugees. Despite the fact that most of them will never arrive in the industrialized countries of the western hemisphere but will remain in their region of origin, the industrial countries are facing an enormous challenge.
- Germany has been in a peculiar situation for several years now. As a country in the heart of Europe, it is at the intersection of the two migration flows from south to north and from east to west. As a consequence, Germany absorbed more immigrants and refugees in the early 1990's than Canada, the United States, and Australia - the classic immigration countries - combined. Even today, Germany still absorbs more than 600,000 immigrants annually - more than all other European countries combined. The weight, however, has shifted, and the public debate about migration and integration has become far less agitated. (Table)
- Currently, German discussion concentrates on the possible structure of an immigration act. This is mainly due to the fact, that German economy and the labor market have recognized a certain amount of labor demand especially at the high skilled level. As a matter of fact, thus, forty years after Germany began to recruit "guest workers," who have contributed their share to the "German economic miracle," German society is again talking about the type and extent of a demand for immigration.
- As a first attempt to solve this problem the Federal Republic decided on "green cards" for foreign IT specialists not provided by the native labor market. More than 4,000 green cards have already been awarded, mainly to individuals from Eastern Europe and India. This, however, appears to be nothing more but a drop in the ocean, since the acute labor shortage does not only affect the IT sector, which is only to be seen as the tip of the iceberg, but also affects other sectors like mechanical engineering, biotech and chemical industries or health care services.

- Nonetheless selective immigration will have to be added as a policy means, and a keen competition to attract high qualified non-EU-work force could well develop between Western countries. It is an open question, so far, whether or not Germany will be able to compete effectively. A new immigration act including a conclusive integration "schedule" seems to be unavoidable in order to prepare for the forthcoming challenges.

## II. Knowledge and Skills as a Predominant Factor of Immigration

- At last, German immigration debate is no longer conducted solely from a defensive point of view, with blind disregard for Germany's economic situation. Among economists in Germany, it has long been undisputed that the immigration system needs to be reformed.
- Just like Canada, Germany should – it is proposed – establish clear criteria for the selection of immigrants who want to come to Germany as labor migrants. Workers should be subject to a point system, which balances such criteria as age, education, and language skills in a fair manner. This would be the best method to account for the different demand situations in specific labor markets. After all, the advantage of a system with quotas and selection criteria lies in its capability to react flexibly to altered conditions. Criteria can be adjusted, and the quota may even be zero at times when the labor market shows no signs of a demand for immigration.
- While such a system has to be added by a catalog of means to integrate permanent immigrants into society and the labor market successfully, temporary labor migrants should be treated in a different way. An auction system would be the best choice in this aspect. Why shouldn't companies be allowed to bid at an auction for the right to recruit a certain number of workers on the global labor market? The market would then guarantee an optimal allocation of resources.
- On the whole, advantages of targeted recruitment of foreign workers are obvious. Not only would it compensate for supply shortages and boost productivity. Unemployed and employed workers in Germany could also benefit because every new job for highly qualified workers creates opportunities in supporting industries. Thus, there would also be prospects for employment of less-skilled workers, which represent the majority of all unemployed in Germany. These complementary effects should not be underestimated.
- All this leads to the conclusion that the harmonization of immigration legislation in the EU will probably be inevitable over the medium term. This is only one more reason to give the preparations on the national level new momentum. It would be in Germany's best interest to act as the driving force behind an "EU Immigration Act" by finally establishing a national immigration policy based on a selection model with quota and criteria.

### III. Perception of Immigration, Knowledge and the Resulting Integration

- As a matter of fact, though, policy makers have to keep in mind the people's attitudes towards foreigners and immigration in order to avoid social tensions. This is especially true for Germany, where the long-standing denial of the status of an immigration country has led to many uncertainties and reservations.
- Recent research has found that people in countries with an active immigration policy are relatively well aware of the positive effects of immigration on their economy. Nonetheless, many are, of course, afraid that they would lose their jobs to immigrants. In contrast, there is little understanding of the economic benefits of immigration in countries that have no immigration policy and mainly absorb refugees. In addition to the fear of losing jobs, social problems and prejudices, only aggravate this situation. These countries are much more likely to suffer from pervasive xenophobia. An active immigration policy could therefore, in a best-case scenario, help to defuse social conflicts.
- The choice of immigration policy affects the growth and performance of an economy, the characteristics of the immigrants a country receives, as well as the perception of immigrants by the native born population. If a policy stressing labor market demands is implemented, it is also quite likely that the immigrants will perform relatively well in the labor market and hence assimilate rather rapidly and contribute to the growth and the performance of the economy.
- Empirical evidence proves that, first, traditional immigration countries, as well as the "new immigration countries" Ireland and Italy, receive a higher share of labor migrants than other countries. Second, compared to natives, immigrants perform relatively well in the labor market of the traditional immigration countries.
- Those countries with the highest share of asylum seekers display the highest proportion of immigrants who do not participate in the labor market.
- While in the new immigration countries Ireland, Italy and Spain as well as in Austria the labor force participation of foreigners is higher than that of natives, the ratio of foreign and native labor force participation is lowest in the Netherlands and in Sweden, which again might be the result of the high influx of asylum seekers. In the traditional immigration countries, the unemployment rate of immigrants is only slightly higher than that of natives. In all other countries immigrants have a much higher probability to be unemployed than natives. In the Netherlands and Germany, foreigners are 3.3 and 1.8 times, respectively, more likely to be unemployed than natives.
- This also means that the immigration policy indirectly determines who gains and who loses from immigration. Assuming that factor quantities are determined exogenously, economic theory predicts that natives who are substitutes to immigrants will suffer and natives who are complements will benefit from

immigration. For example, low skilled immigration is likely to benefit native high skilled workers, while high skilled migration may benefit native low-skilled workers. As long as migrants bring no capital with them, native capital owners always gain from migration. It should then be no surprise that sentiments towards immigrants will depend on education or skill levels.

- The extent of human capital transferability between two countries depends on the type of skills of the individual, the similarity of the sending and receiving country with regards to language, culture, labor market structure and institutional settings, and the migration motive. The higher the content of home-country specific human capital the lower is the transferability of this human capital stock to the requirements of the receiving country. The more similar two countries are with regard to language and the stage of economic development, the lower will be the initial earnings disadvantage of the immigrants compared to natives.
- Immigrants may invest less in the country-specific human capital of the receiving country the older they are at the time of immigration, since the remaining working life to collect the returns from these investments is shorter. Similarly, temporary migrants will have lower incentives to make human capital investments in the receiving country than permanent immigrants, since their expected lifetime returns to these investments are lower due to the shorter planned duration of residence. Hence, it can be expected that temporary migrants have lower earnings assimilation rates than permanent migrants.
- Further determinants of low human capital investments in the receiving country are ethnic enclaves. If, for example, immigrants can work for employers of the same ethnic origin and can shop in stores where employees speak their language, there are less incentives to assimilate to the society of the receiving country. The larger the ethnic enclaves in the receiving country, the lower are the returns to investments in the country specific human capital and the lower the assimilation to natives.
- Empirical results suggest that country of origin is one of the main explanations of the labor market assimilation of immigrants. The success of immigration policies that are based on the selection of immigrants with respect to their labor market characteristics, such as in Canada, Australia and New Zealand, seem to be successful mainly because they alter the national origin mix of immigrants. These countries are not successful in attracting the most skilled immigrants from a given country, but are simply attracting individuals from countries with relatively high skill levels whose skills can easily be transferred to the requirements of the labor market of the receiving country.
- These findings have important consequences for the evaluation of immigration policies in Europe. As outlined above, the immigration policy of most European countries is based on priorities other than the labor market characteristics of the migrants. If these countries managed to select the "right" source countries, it should be expected that immigrants to these countries assimilate relatively fast.

- What can be learned from reviewing assimilation studies?
  1. First, country-of-origin differences and admission criteria have a strong influence on the labor market performance of immigrants.
  2. Second, nearly all countries recently experienced a decline in the so-called "quality" of immigrants, as measured by the upon arrival immigrant-native wage gap. This holds true for countries with a focus on family reunification, as well as countries with a selective immigration policy. The decrease in the quality of the migrants is related to a change in the country of origin mix of the immigrants. The evidence indicates that especially migrants from different cultural background and from different schooling systems, compared to the culture and schooling system of the receiving country, are responsible for the quality decrease.
  3. Third, even though all countries face a decrease in the so called "quality" of immigrants, an assimilation of immigrants to natives can only be observed in those countries that are selecting their migrants according to labor market characteristics.