

# **The German Economy: The Refugee Crisis**

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On March 15 2011, approximately 1790 miles from the German capital of Berlin, protests erupted in the Syrian city of Daraa in response to the arrest and torture of teenagers who painted revolutionary slogans on a school wall. Unbeknownst to the German people at the time, this event was the beginning of a brutal civil war in Syria; one which would lead to the largest refugee crisis in recent history. Five years later, with war still raging on, Germany is faced with a dilemma as growing dissent becomes a concern. Should Germany continue to house and aid refugees from Syria? Politics, morality and security concerns aside, academics suggest it may be beneficial to the German economy.

On one side of the issue stands German Chancellor Angela Merkel, a former scientist and leader of the Christian Democratic Union in Germany since 2000. Merkel believes it is Germany's obligation to aid and provide safe haven to Syrian refugees, claiming the process will also help mend their economy in the process. The other side includes many opponents to the open border policy, all from very different backgrounds. They argue the inflow of Syrian refugees will take jobs away from German workers and put a strain on the government.

Examining how a potential influx of workers would affect the labor market is easy to understand. As seen in Table 1, as the number of workers increases, the supply of jobs remains the same. Many argue this will lead to an excess supply of labor that will affect not only the Syrian refugees but the German workers themselves. This excess supply is thought to also cause the real hourly wage to shrink drastically. However, research suggests that the migrants would largely only affect menial jobs, of which they would only depress wages by two percent.

Germany has a serious labor gap, and it continues to grow. Currently, In addition to a rapidly aging population, Germany has the lowest birthrate in Europe. By 2060, at current rates, the German working-age population will have decreased dramatically from roughly forty-nine million to thirty-four million. Without an influx of labor, Germany stands to lose its position as one of the world's leading economies. The addition of refugees to the population may fix, or at least slow down, the growing problem.

Critics argue the refugees do not contain enough educated individuals to fill the labor gap. According to the Germany Institute for Employment Research, less than fifteen percent of the Syrian refugees entering Germany have completed vocational training or a college degree. However, past migrant waves in Germany's history suggest that as German natives lose their manual labor jobs to immigrants, they choose to find better jobs and education, often times with higher salaries. This would increase the GDP of the country of Germany as a whole, while also increasing the living standards of native born Germans.

The influx of cheap labor in Germany will also have a positive impact on consumers. Upon initial introduction, immigrants tend to earn twenty percent less than their native counterparts in Germany. That twenty percent difference in income for refugees may also be considered a twenty percent reduction in wages paid by firms. While some consider it unfair, there has already been an effect on prices from the competition between businesses that hire Syrian refugees and those that do not. These savings on production and services may be passed onto the consumer, leading to a reduction in the cost of final goods and services paid for by the average citizen. In addition to the reduction in cost, the consumers will be more willing to spend even more, further positively impacting the German economy.

The increase in the demand for social wellness programs on behalf of the refugees will undeniably have an impact on the German government's budget. While an increase in spending on welfare programs may take away from spending in some areas, it will increase spending in others such as foods and real estate for refugees. However, this is only a short term impact. Over the long term, the refugees will become less dependent on government aid, eventually reaching economic self-sustainability. Once these individuals can take care of themselves, the German government will have an increase in income from taxes from the refugees. With a larger population than previously, people paying taxes will mean more money for the government to spend on more programs. This money will greatly aid the economy as a whole, as funds are spent on public goods such as roads and energy production, positively impacting the economy in the long term more than what could have been achieved with the previous population level.

As mentioned above, the increase in income on behalf of taxes to the government will increase government spending on Germany. Besides the immediate effect of these funds being spent, one must also consider the multiplier effect. Depending on the expenditure multiplier and marginal propensity to consume at the time, the distribution of the aforementioned funds could have a much larger impact on the GDP over time than what they previously had.

An increase in government spending will shift the Real Aggregate Expenditure line upward. As the Aggregate Expenditure line shifts, the equilibrium between the Real GDP and Real Aggregate Expenditure changes as well, increasing the Real GDP. Even if prices remain the same, the GDP of Germany will inevitably increase as a result of increased

government spending. As real GDP rises, unit costs tends to rise as well; causing the price level to increase over time. As price level increases, the aggregate expenditure will fall, eventually causing the economy to experience what is known as a Demand Shock.

As Syrian refugees earn money, they will begin to move out of the refugee camps, into residential areas. This will initially impact the price of homes, as demand increases. While this may affect those that wish to buy homes, it also affects those selling or renting out homes. In addition to current homes, the influx in demand for homes will increase the market for creating homes. With more homes being created, more jobs will be created in addition. The creation of jobs and demand for materials for home building will further positively impact the economy. The real estate market is just one example of how refugees will create more jobs and demand for goods and services.

Besides indirect influences on the economy, Syrian refugees will also have a direct impact on the German economy as they become more self-reliant. Studies suggest that in addition to a labor force, firms may also come into Germany through the immigrants. Syrian business owners will increase competition for goods and services, lowering the prices for German consumers. Also, they will increase the jobs available; some even in higher skilled positions. Besides Syrian businesses, German small businesses may see a rise. With the addition of cheap labor, small businesses in Germany will be more willing to hire refugees, allowing them to grow and flourish.

The impact of Syrian refugees on the German GDP is easy to see in the long run. The expenditure approach of GDP divides GDP into four categories: Consumption goods and services, Private Investment goods and services, Government goods and services, and Net Exports. An increase in the population of Germany through the immigration of individuals will obviously mean more people buying more goods and services, increasing consumption. Private investment will also increase to satisfy the new found demand. Government, in the long run, will also be able to purchase more goods and services with more tax paying members of society, as mentioned before. With a higher working-age population, firms will also be able to output more products to other countries, increasing net exports and allowing German firms to compete with other producers outside of Germany. Under this model, every single facet of the German GDP will increase over time, increasing the German GDP as a whole. In 2016, the German GDP increased 0.35%, and this is expected to rise over time.

Despite what many believe is common knowledge, the Syrian Refugee Crisis may be good in the long run for the German economy. As with all former migrant influxes in recent history, it may provide a strain on the government in the short term, but the long term affects are too good to pass on. While there may be political concerns and security concerns for Germany's open-door policy, it is clear are economic concerns on the matter are merely short sighted. With the addition of the immigrants to Germany's labor force, Germany should continue to be a global power and important economy leader in the European Union for many years to come.

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