

# Europe's Gamble

## Migrants could be the key to a stronger economy

By Rana Foroohar

**A**MERICA WAS BORN A NATION OF IMMIGRANTS. Modern Europe, much less so. Its history—at least over the past few hundred years—is one of countries built on comparatively homogeneous national cultures. The creation of the European Union has been a marvel of benevolent globalization in the sense that it brought together 28 of those nations into an economic and political alliance. While the European debt crisis has challenged the future of that union, it hasn't yet doomed it. Now, with the great migration, Europe faces a bigger crisis still—and it's one with profound implications for its culture and its economy.

The challenges of Germany's decision to take in hundreds of thousands of immigrants are enormous. But the benefits could be too. Economic growth is essentially productivity combined with workers—when numbers for both are rising steadily, countries prosper. Europe, which has been struggling to achieve even a percentage point of economic growth per year, is not doing well on either front. The continent has some of the lowest birthrates in the world. In Germany, the economic engine of Europe, the population is predicted to shrink from 81.3 million today to 70.8 million by 2060. If unchecked, that trend would devastate the country's welfare state and future economic growth. Other nations, like France and Spain, are in similar quandaries. Given that women in rich countries tend to have fewer children, the only way to achieve better demographics is immigration.

**AND YET THE IDEA** that migrants could provide a long-term economic boon is hotly challenged by populist politicians across Europe trying to score with electorates that have become more nationalistic in the wake of financial crisis. Far-right-wing French politician Marine Le Pen, for instance, recently framed the challenge this way: "Germany probably thinks its population is moribund, and it is probably seeking to lower wages and continue to recruit slaves through mass immigration."

But Germany's troubled history is actually the key reason that it has one of the most liberal asylum policies in the world. "We have produced many migrants in the past," says the German ambassador to the U.S., Peter Wittig, "and our laws are a legacy of that." Indeed, the country's leaders took the

controversial step of suspending the Dublin Regulation, an E.U. law stipulating that asylum seekers must remain in the first European country they enter, allowing migrants to continue on from port-of-entry nations like Greece to Germany, where they are more likely to find work.

The Germans have been criticized for creating "moral hazard," potentially incentivizing still more to join the migration, as well as for asking other nations to share the burden of housing, educating and training those who do. The latter also reflects Germany's desire to make the migrant issue one shared E.U.-wide. "This is a huge litmus test for European solidarity," says Wittig.

The challenge is getting other E.U. nations to accept that migrants, particularly those from non-European cultures, could be something other than a social and economic burden. Despite the overwhelming data that global migration is a net economic positive, immigration tends to be an emotional, rather than rational, issue—one where culture clashes, sometimes violently, with economic reality.

The picture painted by those against migration shows a horde of relatively unskilled refugees raising social-welfare costs and lowering wages by undercutting higher-paid nationals within the labor force. The first may be true in the short term; Germany has already had to hire an additional 3,000 police officers to deal with arriving migrants. It's also setting aside \$6.7 billion to care for the influx, including shelter, free language classes, education and job training for all migrants who stay—something that Wittig says experience with groups like the Turkish guest workers of the 1960s (who were not given such benefits) shows is essential for successful integration.

But there's little if any evidence to suggest that migration causes an economic race to the bottom. There is scant research on the economic effects of migration to continental Europe, in fact, in large part because migrants have until recently made up only a small portion of the population of major European nations. But studies in the U.S. and U.K. show that migrants don't undercut local labor because they tend to do jobs at the very bottom of the economic ladder. This allows natives to take on higher-level work. British immigrants tend to be better educated,

### MIGRATION:

Grows the economy

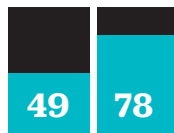


**\$39 trillion**

*Estimated additional gain in global GDP over 25 years if all borders were completely open*

Improves the dependency ratio

*For every 100 working-age people in developed countries, there are 49 who are either too young or too old to work*



*Without immigration, the ratio would rise to 78 by 2050*

SOURCES: EUROSTAT; IAN GOLDIN; KAUFFMAN FOUNDATION; U.N.; NATIONAL BUREAU OF ECONOMIC RESEARCH

more productive and less dependent on public services than native-born citizens, for instance. And Denmark increased its share of non-E.U. migrants in the population from 1.5% in 1994 to nearly 5% in 2008 by taking in asylum seekers from Bosnia, Iraq and Somalia. Yet there has been no negative impact on wages, according to the findings of a 2013 paper by academics from the University of Copenhagen and the University of California at Davis. This is mainly because native Danes simply adjusted by moving up the economic food chain, just as the migrants themselves did by seeking a richer life in a new country.

The free movement of people, along with goods and capital, is the definition of globalization—which has, broadly speaking, increased prosperity at an international level. Yet it's telling that while trade is studied and regulated globally via the WTO, and financial flows are monitored by bodies like the IMF, there is no stand-alone global body that studies the economic effects of migrants on their home countries or their countries of origin. That's something that may well change, particularly if the E.U. can rise to the challenge of dealing with its migrant crisis at a regional level, rather than country by country.

Already most serious scholars believe that the bravery of immigrants has its own sort of economic value, according to Ian Goldin, the director of Oxford University's Martin School, which focuses on key 21st century challenges, and the author of *Exceptional People: How Migration Shaped Our World and Will Define Our Future*. "Migrants are a disproportionately dynamic part of the labor force globally," he argues. Innovative and entrepreneurial, they create a higher-than-average number of patents in many countries, start businesses more frequently than natives and founded 40% of the *Fortune* 500 firms. "In the 19th century, a third of the population of Sweden, Ireland and Italy emigrated to America and other countries," he notes. "The U.S. is the very best example of how dynamic a country of immigrants can be."

**OF COURSE**, many would argue that Europe's immigrants will be much harder to integrate, economically and culturally, even if the E.U. is able to avoid some of the mistakes of the past. These include leaving migrants to stew in detention camps for long periods

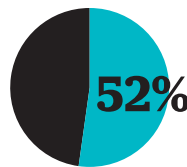
of time, exiling them to public-housing ghettos on the outskirts of major cities like Paris or making it hard for them or their children to become citizens (as was the case for Turkish guest workers in Germany). All of which breeds not only poverty but also the extremism that local populations fear. "Not only do many of these people not speak the local language, which is absolutely critical for employment, they often don't even share the same alphabet," says Mikkel Barlund, an economist at the Centre for European Policy Studies in Brussels.

That's why many experts say E.U. consensus around how to handle migrants—where they should go, which countries will house and feed them, how their documentation should be adjudicated—is vital. That would ensure efficient integration and allow people like Syrian asylum seekers (many of whom are unlikely to ever go home again, given the depth and breadth of conflict in the region) to become productive members of society. It's an argument that makes sense from a global, as well as a regional, economic perspective. According to Goldin, if rich nations around the world were to admit enough migrants to expand their labor force by a mere 3%, the world would be \$356 billion richer—not only because of the productivity gains in the rich countries but because migrants send so much money back home.

In Europe it could also be a way to recommit to the world's most important experiment in benevolent globalization. To solve the migrant crisis, European nations will need to accept and integrate the outside world. But they'll also need to come to terms with one another, finding agreement not only on migration policy but also on who can be a part of the European community, and on what terms. That is exactly the same core issue at stake in other major issues of the moment, like the European debt crisis.

The great economic experiment that is the European Union has always been a cultural one too. Germany, at least, appears willing to take on this challenge. If the current crisis can be a catalyst for Germany to take the leadership role in pan-European affairs that many have been hoping it would, and to convince its peer nations that immigration is a solution to the continent's economic woes, the country—and the migrants themselves—will have played a vital role just by showing up. □

**Fosters entrepreneurship**



*Percentage of startup companies in Silicon Valley from 1995 to 2005 that had at least one immigrant founder*



**Can offset Europe's declining population**

*Decrease in Europe's birthrate*

**Boosts innovation**



*A 1% increase in the share of immigrant college graduates leads to a 6% increase in patents per capita*