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Labor Market Challenges in Europe With Respect to the Migrant Crisis

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Abstract
Advocates and opponents of European refugee policy have disagreed often over the economic impact of new asylum seekers. This paper analyzes characteristic qualities of the European labor market and how they relate to the recent changes in migration from the Middle East and Africa. Within is analysis of the impacts to gross domestic product, unemployment, and the welfare state that the arrival of additional persons to the low-wage market will bring. The paper also argues that a plan to distribute asylum seekers across the European Union is an equitable solution to the issue.

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I. Introduction

As a contemporary issue in the European Union, the recent migrant influx from largely African and Middle-Eastern countries is important and an issue bound to affect every nation in the European Union. Asylum-seekers are headed from war-torn and economically distressed nations in search of safety and economic security. Since asylum-seekers are not likely to return to their home countries, they will eventually need to be integrated into the European economy. Considering the rather generous welfare state policies in European economies that are already strained, an influx in low-skilled and relatively uneducated migrant workers would place a noticeable burden on Europe. This burden is particularly true for many eastern European economies that are still transitioning from decades of Soviet socialist influence. Already, political parties are mobilizing in opposition to accepting any migrants. This paper examines the labor market situation in Europe through the lens of history, but more importantly through economic theory and makes a case for distributing the burden of migration policy equitably across the Union.

Specifically, this research paper considers the economic situation of transition European economies. What are the economic costs and consequences of economic migration from outside of Europe? How do these effects fit within traditional economic theory and market practices? The economic impacts of asylum-seekers are mixed. In Eastern as well as Western Europe, migrants would likely burden the welfare state in a time when these countries are still recovering from the Great Recession. On the other hand, the sudden surge of persons into the European Union is likely to produce a small aggregate demand shock to EU member states' economies.

II. Economic Theory Surrounding Asylum Policies

Before constructing a model for understanding the current economic theory surrounding asylum seekers, it is important to understand some aspects of how the European labor market is generally structured. First, is that for much of the European labor market, salaries and wage labor are often determined through negotiations and contracts with labor unions (Baldwin and Wyplosz 192). Assuming a traditional labor demand curve that is downward sloping and a traditional labor supply curve that is upward sloping in a market for labor, wages can be kept high with fewer hours worked when a collectively determined labor supply shifts left of a traditional supply curve, creating a gap (192). This collectively determined supply curve is a result of the strong union presence in European countries and creates relatively large involuntary unemployment and relatively high-wage rigidity compared with the rest of the developed world. Secondly, the simple "economics of labour migration" model is beneficial to understanding the current labor frustrations with wages (Baldwin and Wyplosz 204). Within this model, the introduction of economic migrants in the labor market moves the wage level down because economic migrants often are willing to help produce the same goods and services at lower cost, thus driving the overall wage rate for native workers down.

Additionally, it is important to keep Keynesian principles of aggregate demand in mind when discussing the effects of asylum-seekers on a local economy. Any governmental spending on their shelter or food will increase GDP, albeit by a small amount.

III. Analysis

Asylum activity in Europe hit an unprecedented surge in 2015 when roughly one million individuals began to flee war-torn Syria and other regions of the Middle East and Africa (Aiygar et al). More individuals seeking asylum in the European Union are expected to arrive in 2016 as well (OECD). Since the 1960s, the European Union has experienced a positive net migration rate from other parts of the world (Baldwin and Wyplosz 201). This net migration has been economically beneficial, as the population of native-born Europe has been growing so slowly that immigration within the EU has had a profound effect in propping up declining fertility rates and filling some jobs that have often gone overlooked (Eurostat, Kassam et al.). What is different about the current asylum-seekers is that many are arriving in a very short time frame, and with relatively low human-capital. These qualities have the potential to affect the labor market of the European Union.

Asylum-seekers do have an immediate economic impact after arrival in Europe. Their immediate impact is through aggregate demand, as EU member states are obligated to build housing and create temporary shelter for them. Once in the system, host European member states will have to allocate part of the national budget for these various social spending items. Estimates from the International Monetary Fund put spending as a percentage of a European host country budget at between zero and 0.57 percent of GDP (Aiygar et al.). While estimates are small, they still represent a meaningful impact on a nation's spending through an aggregate demand shock. The IMF also ran simulations of the increases in population and long run fiscal expenditures as a result of the migrant crisis. The IMF's results indicate that the largest aggregate-demand related GDP increase would occur in Austria at 0.5% of GDP, followed by Sweden and Germany (Aiygar et al.). The analysis also projects increasing national aggregate output levels in the next five years in Europe, as well as higher governmental debt to GDP ratios and unemployment rates (Aiygar et al.). In addition, they find that migrants will experience higher levels of unemployment, but have a labor force participation rates similar to those of native workers. While all of these projected changes are important, they all fall under a percentage point of GDP, and constitute rather small changes.

Further research on the impact of migrants to the European Union reveals that migrants have unique pressures on the labor markets of their new countries. In the medium term, labor market integration depends the length of asylum application time, whether individuals are successfully granted asylum, and if these individuals actually enter into the labor force (OECD). If application time is lengthy, migrant integration into the labor force will be delayed. Meanwhile, if labor market integration is unsuccessful, the IMF pessimistically estimates that EU member states will endure even higher government debt, unemployment, and lower national output for all of the European Union (Aiygar et al.). The successes of the migrant population and the individual EU member states are dependent on successful labor market integration.

Past research on migrants in the labor market reveals that there is a significant time component to labor market integration. Furthermore, past research on the member state fiscal impact of refugees suggests "the net direct fiscal impact of welcoming refugees can be relatively high in the short term, but that it will also decrease rapidly over time as their labor market integration improves" (OECD). The fiscal shock of a migrant influx is significant in the short run, but also has effects in the long run. Aslund and Rooth (2007) argue that when immigrants arrive in periods of high unemployment, their wage assimilation rates and employment rates suffer for long periods of time. Considering that the European economy is in a very fragile state following the Great Recession, a labor market shock of migrants into many relatively generous European welfare states may be have a larger impact than thought. The OECD also predicts that the influx of new labor may be "concentrated in some areas, depending on integration measures, [with] potentially sizeable local effects" (OECD). Thus, local unemployment will be heightened in some locations in the EU.

Much of the new migrant labor will affect the market for low-skill labor jobs in each member state. Thus, if there is going to be a supply shift in labor, it will be concentrated in this market, as migrants generally do not have the same level of education or local language experience. Baldwin and Wyplosz' economic theory and explanation of the labor market and unemployment contends that if a supply increase of labor occurs, unemployment will increase (Baldwin and Wyplosz 192).

Often, refusal of asylum-seekers is due to an underlying fear of migrants taking labor away from native workers. The fear, which could be hypothesized using the "simple economics of labor migration" model from Baldwin and Wyplosz, is based on rather "extreme" assumptions that migrants will lower wages for every worker (Baldwin and Wyplosz 207). These assumptions are particularly extreme as they include the belief that "immigrants are willing and able to perform the same jobs as natives" but at a lower wage" (207). This is simply not true for most of the labor market, with the exception of the really low-skilled market, because most migrants do not arrive with the same experience or human capital as most native-born workers. Nevertheless, there is still a small, negative component to any projected increase in unemployment, as it will likely have a disproportionate effect on the low-skill labor market and an increased effect in the member states' national budget deficit through the vehicle of the welfare state.

IV. Synthesis & Assessment

Overall, accepting some asylum-seekers from Syria, the Middle East and Africa is an important humanitarian measure to take. To date, there has been considerable opposition to accepting asylum-seekers. Their effect on the labor market is obvious as unemployment, national output, and government debt all change. While the magnitudes of these changes are small, and less than a percentage point in each category, these issues are still important, as migrants will eventually flood to the labor market in the short run. The OECD estimates an additional 380,000 entries into the labor market in January 2016 and 680,000 by December 2016 when they will amount to about 0.3% of the labor force in the European Economic Area (OECD).

In response to this on-going crisis, German Chancellor Angela Merkel, and other European heads of state have promoted a movement for solidarity to determine quotas for how many migrants each member state should take. The existing European directive surrounding the refugee issue known as the Dublin Regulation determines that asylum seekers are obligated to seek asylum only in the member state that first processed their asylum application. Not all member states agree on the asylum issue, and the Dublin Regulation clearly does little to lift the extensive burden many southern European member states would endure were it to be heavily enforced (IMF). Strict application of the Regulation would mean that Greece, Italy, and Hungary would need to accommodate most of the asylum seekers, which does not seem politically realistic and would place an unnecessary burden on those labor markets (Aiygar et al.).

Within the EU, there are divisions over what should be done to distribute asylum seekers equitably across Europe. In particular, Eastern European member states are not eager to admit any asylum-seekers. In many ways Eastern European member states have differing histories to those of Western Europe as many have been transition economies since the end of the Cold War in the early 1990s (Åslund). Most Eastern European countries have endured structural changes in their economies in the transition from strong governmental control of production to a market economy and those member states still have lower measures of GDP per capita than Western

Europe. Additionally, these economies have had to endure the financial crisis of 2008 and are still enduring the effects of weak European economic growth. Unemployment in Europe is high and widespread. Long-term unemployment, or the percentage that workers are out of work for a year or more, is noticeably higher in many Eastern European countries like Hungary, Latvia, Slovenia, Slovakia, Poland, and Bulgaria in comparison with the European Union average (OECD database). With long-term unemployment so high, adding in refugees to the economy will have higher burdens than many Western European economies that have performed better, and are generally wealthier.

In a September 2015 interior ministers meeting of the EU, several Eastern European leaders were tough in the negotiation of the plan to distribute refugees across the continent. The Economist noted that the "worst traditions from Brussels [such as] pernickety squabbles over wording to idle can-kicking were on full display" at this meeting (The Economist). This is during a period in which many countries are pursuing defensive action against the flooding of migrants across the borders. Hungarians have militarized their border and Germany has introduced border checks. The Economist finds these developments "individually rational but collectively [have done] nothing to solve the problem" (The Economist). Meanwhile, in Eastern Europe, many Polish citizens protested the migrant-related issues, while solidarity supporters have gained less support (The Economist). While some European countries are doing what they can to limit the flow of migrants, collectively the individual member state actions fail to solve the pressing issue of determining what is optimal for the entire European Union and its economy.

Ultimately, a plan must be agreed upon which goes further than the agreement made with Turkey in March of 2016 and the quota legislation passed through European parliament in

August of 2015. The concept of solidarity ensures that the migrant crisis will not place any undue burden on any particular countries, and member states need to do more to cooperate with each other. This situation is a humanitarian crisis and requires that attitudes be changed toward mitigating the issue rather than refusing to act at all. While immigration has some effects on an economy, it is not the cause of secular trends in unemployment, and wage rigidity in Europe.

V. Conclusion

This paper examines the role of asylum-seekers and their impact on the European economy. Potential costs of granting asylum to workers, under any circumstance, include slightly higher unemployment, and a higher government deficit, but these changes are rather small in magnitude. In addition to the solution agreed to with Turkey, the European Union needs to take steps towards "solidarity" so that no particular nations are getting an undue burden of the fiscal and economic effects of the migrant crisis. Strong sentiments towards immigration in the EU are rather misguided and not informed by economic theory. It is understandable why low-skilled Europeans would be upset with the introduction of new persons into the market, and why many countries with high long-term unemployment would be skeptical of introducing new people into the labor market. The migrant crisis ultimately is a humanitarian problem that needs to be dealt with in a manner that is informed by labor market theory so that the issue has an equitable solution.

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