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Research Brief

5th edition – July 2016

The impact of the influx of German forced migrants on the labour market in post-war Germany

by Sebastian Braun and Henning Weber

A substantial number of refugees have arrived in Europe in recent months, many of whom will presumably take up work in the coming years. Under considerably different circumstances, German displaced persons migrated to West Germany following the Second World War and needed to be integrated into the labour market. A new study examines how this integration took place.

International migration – both within and to Europe – has been rising continuously in recent years, triggering heightened concerns among the domestic working population of possible negative consequences. While immigration could indeed raise the unemployment rate and cause average wages to fall, the strength of these effects and their distribution at a regional level will depend on the migrants' qualifications and access to the labour market. The fact that the domestic population – or the migrants themselves – can move between regional labour markets also plays a role. Immigration can also have positive effects; for instance, it can offer enterprises incentives to create new jobs and thus encourage growth.

An analysis of these different adjustment channels can be used to identify the impact that immigration actually has on labour markets. Such an investigation can prove quite challenging, however, partly because migrants do not normally choose their destination at random, but rather according to economic or other criteria. Migrants tend to be particularly drawn to locations where they will be paid higher wages or have a better chance of finding work. When geographical areas with high levels of immigration have low unemployment rates, this does not necessarily mean that unemployment has reduced as a result of immigration. It may also mean that regions with lower unemployment rates are more appealing to immigrants. Thus, there is a risk of confusion between cause (immigration) and effect (labour market situation).

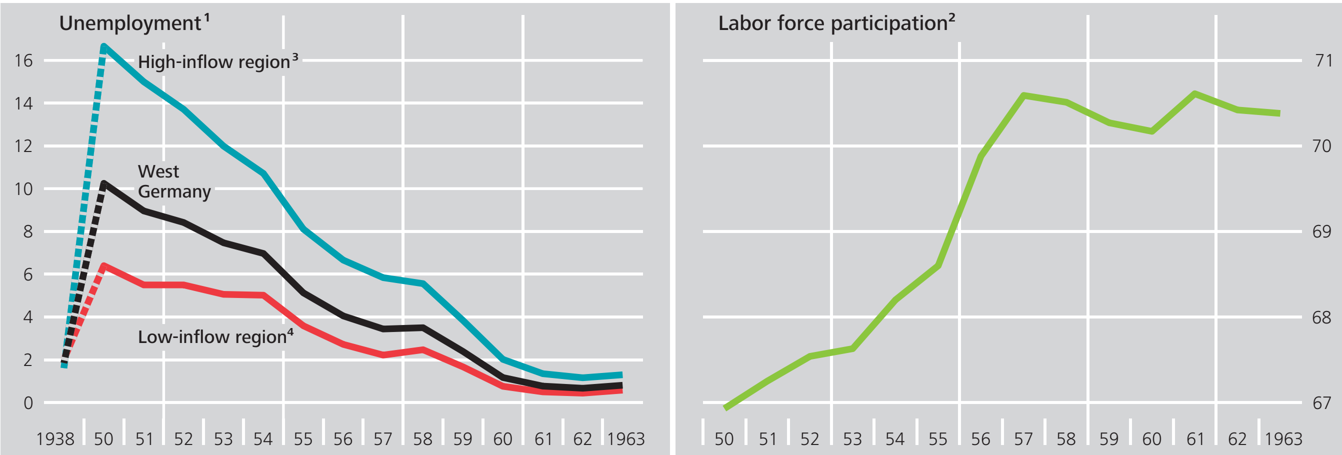
A historical case of migration

In order to better separate cause and effect, we conducted a new study examining a historical case of migration. At the end of the Second World War and in the first few post-war years, approximately eight million German displaced persons from central and eastern Europe flocked to present-day western Germany. In 1950, 47.7 million people lived in West Germany, compared with a figure of 39.4 million in 1939. Therefore, displaced persons accounted for roughly one in six inhabitants of West Germany following the Second World War.

However, an important distinction is that the displaced persons, at that time, did not choose their first place of

Unemployment and labor force participation rates in West Germany 1938-1963

in %



Sources: Länderrat des Amerikanischen Besatzungsgebiets, Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung, Sensch (2004) und Statistisches Bundesamt. **1** Unemployment rate = Ratio of registered unemployed to the dependent labor force. **2** Labor force participation rate = Ratio of all economically active persons relative to the population aged 15-65. **3** Population weighted average of Bavaria, Lower Saxony and Schleswig Holstein. **4** Population weighted average of Baden-Württemberg, Bremen, Hamburg, Hesse, Northrhine-Westphalia and Rhineland Palatinate

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residence in West Germany based on opportunities in the regional labour markets. One reason for this is that the then French occupation zone did not initially take in any refugees. Another reason is that many were hoping they could eventually return to their homes, so to begin with, they moved to regions of West Germany in close proximity to those from which they originally came. However, these plans were not to be realised.

The percentage of displaced persons in Bavaria, Lower Saxony and Schleswig-Holstein was therefore particularly high. As a result of this uneven distribution, the unemployment rate in these „refugee states" was initially two and a half times that of the rest of West Germany.

After 1950, there was then a strong exodus from the „refugee states" into the other states. As a result, the regional unemployment rates also converged, albeit very slowly. It took about a decade for the West German labour market to reach a new steady state. This immigration also had long-term effects: it changed the relative population size of Germany's states and led to considerably higher levels of employment in absolute terms.

The role of economic policy

Our model-based analysis suggests that the number of displaced persons in employment rose continuously from 1950 onwards, while employment among the non-displaced population initially fell in the first few years after the influx and did not pick up again until later. The newcomers therefore temporarily crowded out native employment. The analysis shows that this caused a loss of labor income among the local population estimated at up to 6 per cent in the first few years after the inflow – especially in the German states which took in large numbers of refugees. In terms of lifetime income, which covers a longer period of time, the losses were, however, significantly lower, at around 1.4 per cent, and fairly moderate given the size of the influx.

These figures take into account that locals limited the potential loss of income from employment by also migrating to other regional labour markets or by opening up other sources of income. For instance, some of them engaged in home production or ramped up production of agricultural produce on their own farms.

Could economic policy measures have helped mitigate the sharp adjustment dynamics on the labour market and thus dampen the loss of income among the non-displaced? To answer this hypothetical question, we apply a theoretical model which reflects the historical adjustment dynamics and allows us to simulate ex post the economic policy measures that might, given the historical circumstances, not have been possible at the time. And indeed, the initial distribution of displaced persons in the West German regions and over time, in particular, appears to have had an impact on income effects and the adjustment dynamics of the labour market. Had access to the labour market been stretched over time or displaced persons distributed more evenly across the country, the losses would probably have been smaller.

We further examined what impact low levels of immigration, comparable in terms of numbers to today's influx of refugees to Germany, would have had back then. In this scenario, the adjustment period would have been only insignificantly shorter than ten years. However, with smaller numbers of refugees, the loss of income among the native labour force would have been significantly smaller than in the historical case.

Of course, the results of our examination of the post-war period cannot be transferred one-to-one to today's refugee situation. The current situation differs, for instance, in terms of the actual distribution of asylum-seekers in Germany, mastery of the language, the level of qualifications and migrants' cultural background as well as the economic situation in Germany.

Conclusion:

Immigration can temporarily weigh on a labour market, but also offers growth potential. The market and market players adapt to the new situation, a process which involves cost and takes time. The historic influx of displaced persons after the Second World War temporarily reduced the native population's income from employment. In the long term, however, these losses were fairly moderate. Model simulations suggest that the regional distribution and the period over which newcomers' access to the labour market takes place are important policy parameters.

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News from the Research Centre

"Testing for Granger causality in large mixed-frequency VARs" by Thomas Götz (Bundesbank), Alain Hecq (Maastricht) and Stephan Smeekes (Maastricht) will be published in the *Journal of Econometrics* 193 (2).

"Government Spending, Entry and the Consumption Crowding-In Puzzle" by Vivien Lewis (Bundesbank) and Roland Winkler (Dortmund) will be published in the *International Economic Review.*

Research professors:
In 2016 Peter Egger (University Zurich), Rainer Haselmann (University of Frankfurt), Jose-Luis Peydró (UPF Barcelona), Morten Ravn (UCL London) und Todd Walker (Indiana University) became new research professors. Klaus Adam (University of Mannheim), Jörg Breitung (University of Cologne), Falko Fecht (Frankfurt School of Finance and Management), Christian Leuz (University of Chicago Booth School of Business), Harald Uhlig (University of Chicago), Joachim Winter (LMU Munich) continue serving as research professors.