

Research Brief

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The impact of EU immigration on labour market outcomes in Germany over the past decade

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In the mid-2010s, wages in Germany recorded comparatively weak growth while employment was surprisingly strong. A new study examines how immigration in the context of EU free movement of workers, in particular from the “new” Central and Eastern European Member States, contributed to these developments on the German labour market.

Starting in May 2011, Germany successively lifted the restrictions to free movement of workers for nationals of the 11 “new” Central and Eastern European (CEE) EU Member States. This elicited an immediate rise in CEE immigration rates to Germany. Between 2011 and 2017, around 3.9 million CEE nationals migrated to Germany (see Figure 1) whilst around 2.5 million CEE nationals emigrated from Germany. Net immigration – i.e., immigration minus emigration – thus amounted to around 1.4 million persons, thereby increasing the CEE share in the German labour force from 1.1% to 3.4% (BA Statistik, 2022a).

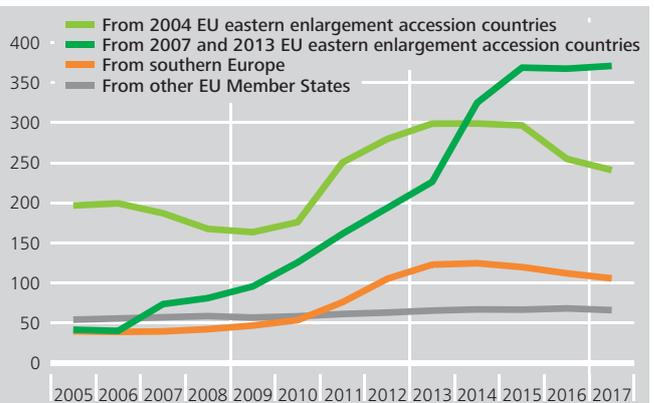
CEE immigration driven primarily by labour market-oriented motives

The employment rate among CEE nationals in Germany rose steeply between 2011 and 2017, from almost 36% to 55% (BA Statistik, 2022b). The sharp rise in the employment rate in the wake of increased immigration by CEE nationals following the extension of free movement of workers suggests that most CEE immigration over the past decade was labour market-oriented. In other words, immigration was motivated

Gross immigration by EU nationals to Germany

Figure 1

1,000 persons per year



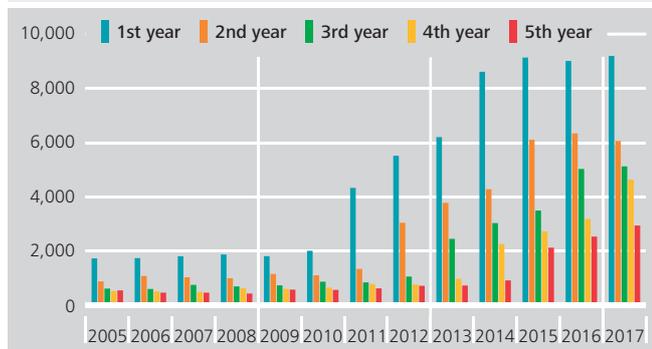
Sources: Destatis and Bundesbank calculations.

Deutsche Bundesbank

in particular by the objective of taking up employment in Germany. Over the same period, the unemployment rate among CEE nationals in Germany fell from 12.8% to 8.1%. This would suggest that CEE immigrants typically already had a job offer in Germany before making the move. This kind of positive selection implies that they brought along skill profiles wanted by domestic employers.

Patterns for EU immigrant cohorts who have remained in Germany Figure 2

Number of persons¹



Sources: Research Data Centre of the German Federal Employment Agency at the Institute for Employment Research (Sample of Integrated Labour Market Biographies – SIAB), Bundesbank calculations. ¹ Persons still registered in the SIAB data base by year of SIAB entry. Deutsche Bundesbank

Importantly, it is those immigrants whose first years in the job market progress satisfactorily that tend to stay. From this, we may assume that the skills composition of “stayers” (previous “new arrivals” who have already been working in Germany for a few years and so have proved themselves in the German labour market) is even more closely geared to the needs of domestic employers than that of “new arrivals”.

Owing to the high incidence of temporary and/or return migration among CEE nationals (see Figure 2) – and in contrast to previous studies (e.g. Dustmann et al., 2013, Jaeger et al., 2018) – our empirical analysis of the labour market effects of immigration explicitly distinguishes between new arrivals and stayers (Hammer & Hertweck, 2022). This novel approach allows us to identify not only the short but also the medium-term effects of recent EU immigration on labour market outcomes. While new arrivals capture the short-term effects of the expansion in labour supply, stayers help to additionally isolate the indirect effects of immigration. Such indirect effects typically only show up with some time lag, for instance because of changes in labour supply or changes in investment decisions of domestic residents. Focusing exclusively on new arrivals would therefore fail to provide a complete picture.

Counterbalancing effects of new arrivals and stayers on wage growth

According to the results, the inflow of new arrivals from other EU Member States, in particular from the CEE accession countries, had a significant dampening effect on the growth rate of mean wages among German full-time employees, whereas the impact of stayers is significantly positive.

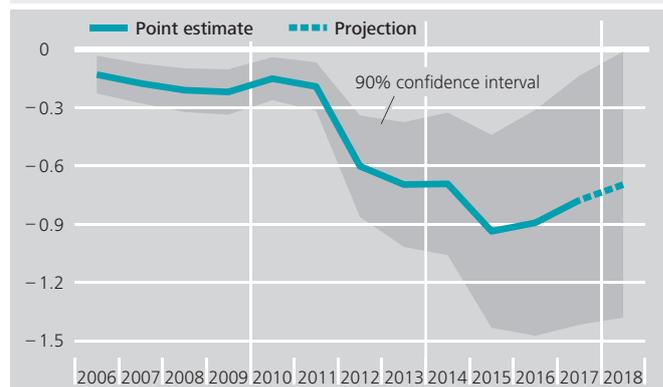
We thus conclude that stayers attenuate the dampening wage effect brought about by new arrivals (Jaeger et al., 2018). While the initial net effect on the wage level may be negative, around five years after an immigration influx the wage level returns to its original growth path (see Figure 3). The effects are relatively strong in the lower income groups in particular – i.e. where EU migrants are frequently positioned and where competition with the resident workforce is relatively strong.

EU immigration has a long-term positive effect on employment among German nationals

In addition to this, EU immigration exerted a long-term positive effect on the employment level of German nationals and of persons with a migration background settled in Germany. This empirical finding could be caused by a complementarity between the jobs held by resident workers and EU immigrants and the skill profiles most common among the latter group being relatively rare among the resident workforce (Chassambouli & Palivos, 2014). The study thus helps to reconcile why wages in Germany rose comparatively weakly whilst employment rose surprisingly strongly in the mid-2010s.

Joint effect of immigration on mean wages of German nationals in western Germany Figure 3

Deviation of wage growth from baseline, in percentage points



Sources: SIAB, additional data (see Hammer & Hertweck, 2022) and Bundesbank calculations. Deutsche Bundesbank

Conclusion:

Compared to previous studies on immigration to Germany during the 1990s (for example, D'Amuri et al. 2010), the present study finds much more beneficial effects over the last decade, particularly with regards to employment growth. This finding is likely due to the interaction of two factors. First, the German labour market has become considerably more flexible over the past 20 years. Newly emerged sectors, such as subcontracted labour, pay low wages but may also offer immigrants opportunities to gather initial experience in the German job market. Second, the extension of the right to EU free movement to CEE nationals facilitated precisely that kind of labour market-oriented immigration that was closely geared towards the needs of domestic employers. In this way, CEE immigrants have effectively "filled the gaps" which could not be properly filled by the domestic workforce. As a result, crowding out effects on domestic workers did not occur. On the contrary, the influx of workers from the EU likely helped German nationals to find newly created jobs, complementary to those comparatively low-paid jobs found by recent EU immigrants.

This study uses the weakly anonymous Sample of Integrated Labour Market Biographies (Years 1975-2017). Data access was provided via on-site use at the Research Data Centre (FDZ) of the German Federal Employment Agency (BA) at the Institute for Employment Research (IAB) and subsequently remote data access: <https://doi.org/10.5164/IAB.SIAB7517.de.en.v1>. Data documentation: Antoni et al. (2019).

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News from the Research Centre

Publications

"Estimating the Optimal Inflation Target from Trends in Relative Prices" by Klaus Adam (Universität Mannheim) and Henning Weber (Deutsche Bundesbank) will be published in the *American Economic Journal: Macroeconomics*.

"A Pay Change and Its Long-term Consequences" by Guido Friebel (Goethe University Frankfurt) und Miriam Krüger (Deutsche Bundesbank) will be published in the *Journal of Labor Economics*.

Events

19 – 20 May 2022

Conference (joint with the Euro Area Business Cycle Network)

"Challenges in Empirical Macroeconomics since 2020"

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