Low Wage Growth in Germany? – Don't Blame the Migrants!

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The German labour market follows a fascinating employment trend since the year 2005. In contrast, wage growth remained weak until 2010 and although wage dynamics have picked up by now, they remain clearly subdued when compared to the vibrant development of employment and vacancies. Various explanations such as weak productivity development and the rise of service jobs are given for this phenomenon. In the same context, one often finds the strong migration to Germany. The argument is a classical one: migrants increase labour supply which leads to higher wage competition. We argue that such a mechanism is unlikely to have played a relevant role for German wages in the recent years.

Let us begin with the reason why many observers would have expected stronger wage growth in Germany: increasing scarcity of labour. Indeed, starting from a situation of mass unemployment, the number of unemployed has more than halved since 2005. Over the same period, the number of vacancies strongly increased. In sum, this leads to a much higher labour market tightness, measured as vacancies per unemployed. In a tight labour market, a firm´s probability to find a new worker is smaller. Hence, firms are willing to accept higher wages. How is that connected to migration?

Foreign workers represent a chance to fill vacancies in Germany

Naturally, potential immigrants who are not yet in Germany are not contained in the unemployment measure. The level of vacancies, by contrast, is increased by potential immigration, since firms want to hire immigrants, especially when domestic labour becomes scarce. According to standard labour market theories, firms open the more vacancies the better the chances are to fill them – and foreign workers represent a chance to fill a vacancy. Indeed, a good part of employment increases in the recent years was due to foreigners matching with a firm in Germany. Moreover, results from the IAB Job Vacancy Survey show that German firms increasingly search for new hires abroad. Therefore, the tightness measure compares vacancies that comprise potential hiring from out of the domestic labour force with unemployed who are by definition not out of the labour force. Consequently, tightness is overestimated since it considers immigration effects only on the vacancy side but not on the side of the factual labour force potential. Hence, wage expectations based on an overestimated tightness measure will be too high as well.

Comparing apples and oranges

Evidently, when it comes to migration, the tightness measure compares apples and oranges. Or in other words, the number of vacancies would not be so high without migration potential. This is also on a more general basis a crucial point when assessing economic effects of migration: The economy in the host country does not remain static, but adjusts to the higher labour supply. As e.g. Gianmarco Ottaviano and Giovanni Peri argue in a 2012 article, in reaction to immigration the capital stock is proportionately increased by investment. Then, labour demand (vacancies) rises accordingly. Thus, upward shifts in labour supply and demand go hand in hand.

This is exactly what Enzo Weber and Roland Weigand find in a 2016 IAB study that estimates macroeconomic immigration effects based on an approach that minimises a priori restrictions in order to let the data speak: Migration shocks to Germany show no significant effects on the unemployment rate, GDP per capita and the wage share. This implies that immigration increased the volume of the economy according to the average performance of the overall labour force.

Segments of the labour market might show a different picture

Of course things can be different under heterogeneity if the labour supply shock concerns segments with low wage flexibility and high unemployment risks as a 2014 study by Herbert Brücker et al. shows. This does not apply to the general migration to Germany, which is rather diverse. However, it may apply to immigration of refugees due to relatively low formal qualification, low transferability of human capital and a rather poor fit of refugees to the needs in the German labour market. Indeed, the study of Enzo Weber and Roland Weigand finds negative effects of refuge migration on the wage share. However, these appear only after several years. The first years instead witness a positive wage impact. This can be connected to initial demand effects coming from immediate investments, social assistance payments and hiring in fields such as administration, education or social work. Moreover, asylum seekers become relevant for the labour market only with delay. Thus, while it cannot be excluded that the refugee wave since 2015 will have negative wage effects in Germany, it seems very unlikely that these already appeared over the recent years.

Conclusion

To conclude, one may well be bothered by the performance of German wage growth. Politically, there are promising measures such as fostering investment, substantiating a policy of further training or removing disincentives in a reform of minijobs. But don't blame the migrants!

Literature

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Zitationshinweis

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