

The growing cost of Europe's welfare trap

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Despite the political turmoil the refugee crisis has created in Europe, it is often argued that the arrival of hundreds of thousands of refugees might help to solve the problem of Europe's ageing population.

And indeed, if you have a preference for rose-tinted glasses, the migrants will not only rejuvenate the old continent, but will bring their skills and qualifications and make their recipient countries stronger than they had been before.

There are two problems with this proposition. First, the composition of the migrants entering Europe does not suggest that the majority of them will enter the labour force anytime soon. And second, the design of Europe's welfare states makes it less likely for poorly qualified migrants to actively seek employment.

In theory at least, an influx of young migrants could well be a positive for the recipient countries. Germany is a case in point. "We need people. We need young people. We need immigrants," Germany's home secretary Thomas de Maizière said recently. He was, of course, referring to his own country's demographic crisis.

For decades, Germany's total fertility rate has been stubbornly below the so-called replacement level which would keep the population stable. In an advanced society, 2.1 births per woman yields a constant population. The fertility rate for Germany has been below this level since 1970. In fact, over the past three decades it has fluctuated around two thirds of that figure.

The result of the Germans' apparent unwillingness to reproduce is both population ageing and population shrinking. Germany already has one of the oldest populations in the world with a median age of 46.1 years (only surpassed by Monaco and Vatican City, where there is not much reproduction happening for different reasons).

Over the coming decades, this age will increase to over 50 years, while Germany's population will shrink from its current level of 80 million people to somewhere just above 60 million. In other words, Germany is looking into the abyss of a demographic implosion.

The prospect of receiving a few million refugee migrants might, therefore, not be too intimidating for Germany at first sight. Quite on the contrary, an influx of young and qualified people could help stabilise the population and even keep the welfare state affordable.

As it turns out, the refugee influx may not have that desired effect. Though it might reduce the population age, it may well turn out to be a net drain on the welfare state.

In an interview last month, Germany's Federal Labour Minister Andrea Nahles made an astonishing admission: fewer than 10 per cent of all asylum seekers would be qualified enough to find employment straight away. "Not all those who come are highly qualified," the minister said. "The Syrian doctor is very much the exception."

To avoid any misunderstandings, Minister Nahles is the opposite of a right-wing firebrand. She is as left-wing a politician as you can find in the Social Democratic Party. But even Nahles expects that 90 percent of all refugees will be dependent on welfare.

Nahles' fear is not exaggerated. The majority of refugees arrive without any knowledge of their host country's language. About a fifth of them are illiterate, and even those who are not are probably more familiar with Arab script than the Latin alphabet. It is safe to assume that in high-tech Germany, the refugee newcomers would not find themselves prepared to enter the market for qualified jobs.

In all likelihood, what this will mean is that the refugees, should their claims for political asylum be accepted, will be initially dependent on benefits. That is bad enough. But to make things worse, it is difficult to leave welfare dependency in Europe, not just in Germany.

In August, the Washington-based Cato Institute presented a fascinating research paper on the design flaws of Europe's welfare states. The institute's report, 'The Work versus Welfare Trade-Off: Europe', documents how Europe's welfare systems do not provide any incentives for low-skilled welfare dependants to improve their condition and seek paid employment.

Co-authored by Cato scholars Michael Tanner and Charles Hughes, the paper shows two things. First, it demonstrates how high levels of welfare benefits are in European countries, both in absolute terms and as a percentage of the income earned on the minimum or the average wage. Second, it reveals that once you are on benefits in Europe, it often does not pay to move into paid labour since the benefits you lose are hardly outweighed by the extra income you might earn.

Tanner and Hughes thus demonstrate that in nine EU countries, welfare benefits exceeded the minimum wage. In three EU countries (Austria, Croatia and Denmark) "the effective marginal tax rate for someone leaving welfare for work was nearly 100 percent, meaning that a person would gain virtually no additional income from working". In another 16 countries, that marginal tax rate was still higher than 50 percent.

The absolute levels of benefits available are quite astonishing. In Denmark, for example, a single parent with two children can expect annual assistance of €31,709 (\$48,300).

For a refugee from Syria or Afghanistan, where per capita GDP stands at \$2,800 and \$915 respectively, such levels of assistance are quite unimaginable. It is no wonder that Europe with

its highly developed and generous welfare states sends out a strong call to potential migrants from around the globe, whether they are genuine refugees or not.

The challenge for Europe's societies is to ensure that those migrants coming in will not remain welfare-dependent forever but find a way into productive society quickly. On that front, unfortunately, there is just not much reason for optimism. Migrants coming in are poorly qualified, and the welfare systems they enter do not provide much of an incentive to seek paid employment.

For this reason, there is a much more plausible scenario for how Europe's migrant crisis might play out in the long term. Rather than seeing migrants as stabilising forces of Europe's welfare states, many of them could turn out to be long-term welfare-dependants. In this way, they might well reduce the median age of society but they would still be a net drain on their recipient countries' public purses.

None of this is to say that Europe should not provide shelter to those escaping political prosecution or escaping from war. However, to those who believe that importing a large cohort of relatively uneducated migrants into developed economies with generous welfare systems provides a win-win situation for everyone involved, please think again.