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**Sustainability of the German Economic Model
in the Global Political Changes: Migration as a
Challenge or Opportunity?**

Master's thesis

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Declaration of authorship

Me, Lucia Lacová, hereby declare that the thesis „The Sustainability of the German economic model in the Global political changes: Migration as a challenge or opportunity“was written completely and independently by myself, as well as that all the presented results are my own, unless stated otherwise. The literature sources are listed in the References section.

Prague, April 28, 2017

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Bc. Lucia Lacová

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Prague, April 28, 2017

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Abstract

This thesis is devoted to the description of the German economy throughout recent decades including the unification and introduction of the euro. The thesis enumerates the basic features of the German economic model and identifies the main policy failures, as well as successes of its government. An important part of this thesis concerns the consequences of the introduction of euro and the subsequent increase in the competitiveness of the German economy at the expense of the other Eurozone members. Main part of this thesis investigates economic sustainability of the German economic model in the context of the current European refugee crisis. This thesis focuses mainly on the challenges and opportunities brought by the changing global environment and it examines the changing population trends in Germany and the possible scenarios immigrants can cause. It finds opportunities of how the German economic model could be changed towards the better sustainability.

Keywords: Germany, European Union, refugee crisis, immigrants, integration, economic model, sustainability, population, growth, prediction

Abstrakt

Tato diplomová práce je věnovaná popisu německé ekonomiky v posledních dekadách zahrnující sjednocení Německa a zavedení eura. Práce vymezuje základní rysy německého ekonomického modelu a identifikuje nejdůležitější ekonomické a politické selhání jako i úspěchy své vlády. Důležitou součástí jsou důsledky zavedení eura a následné zvýšení konkurenceschopnosti německé ekonomiky na úkor ostatních členů eurozóny. Hlavní část závěrečné práce zkoumá ekonomickou udržitelnost německého ekonomického modelu v kontextu současné evropské uprchlické krize. Tato práce se zaměřuje především na výzvy a příležitosti vyplývající z měnícího se globálního prostředí a zkoumá změnu populačních trendů v Německu a možné scénáře, které mohou imigranti způsobit. Tato práce hledá příležitosti, jak může změnit německý ekonomický model směrem k lepší udržitelnosti.

Klíčové slova: Německo, Evropská unie, uprchlická krize, imigranti, integrace, ekonomický model, udržitelnost, populace, růst, predikce

Překlad názvu: Udržitelnost německého ekonomického modelu v globálních politických změnách: migrace jako výzva nebo příležitost

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Introduction

Germany seems to be a perfectly working country: people live in peace, unemployment is low, working conditions are more than good, the social system may be an example for many countries, it achieves surpluses constantly, and salaries are better than in most parts of the Europe. It passed from the World Wars to unification and from unification to the key player in the European Union and a policymaker. West Germany was even nicknamed „*Wirtschaftswunder*“ thanks to its rapid reconstruction and development of the economy after the World War II. which enabled most of the population to have a significant improvement in their living standards.

The global financial crisis in 2008, did not hit Germany as harsh as its European peers and country proved to be relatively immune. This is because the economy is structured more stable and industry is focused on more than one or two sectors. After the shrunk in GDP in 2009, its economy continued to grow by 2% per year on average whereas the EU-28 rose on average only by 1,3%. Germany's nickname has been justified in 2014 again, as the country recorded the highest surplus in the world, surpassing even China, and making it the biggest capital exporter globally.

However, not everything works as well as it may seem and despite the generally good performance, there are many malfunctions in the German economy. One of the current problems not only Germany but as well other developed countries face is the aging and declining population. It is supposed that the workforce is going to shrink significantly in the following decades. To slow down this development, Germany is ready to receive hundreds of thousands of immigrants yearly.

With the outbreak of refugee crisis in Europe, Germany faces an enormous pressure from everywhere. As a de facto leader of the EU and the immigrants' final destination, Germany was aware of the consequences it brings with its policy decisions. Despite the difficult position it holds, Germany, under the lead of Chancellor Angela Merkel, was welcoming refugees with open arms. Except the humanitarian reasons it defends, the main reason of this refugees' policy is hope, that inflow of refugees may compensate for Germany's ageing and declining population.

This thesis consists of 5 chapters. The first chapter is devoted to the description of Germany and its economic model, as well as examining its policy successes and failures. The thesis is assessing the German economy in the three important periods, namely: until the reunification in 1990, until its entry into the Eurozone, and since the introduction of the Euro. Further, it compares the main macroeconomic indicators of Germany with the so-called Great Powers. The last subchapter describes the current political situation in Germany.

The second chapter is focusing at Germany as the most important member of the European Union. It describes the structural problems of Eurozone as a non-optimal currency area. Chapter also analyses the role of Germany in the Eurozone debt crisis, its responsibilities and consequences it brought with its policies. The end of this chapter assesses the German current policy and gradually passes into the recent global changes.

The third chapter is devoted to the migration and its economic sustainability in the context of migration crisis. Following subchapters are analysing the German's demography and its possible future's predictions, as well as the economic sustainability of migration. We are analysing the possible ways of reduction of dependency ratio as the most important factor of the sustainability of ageing population. Further, this chapter describes the migration to Europe and statistically compares the selected indicators of the native population to the population with a migration background. The last subchapter looks at the example of assimilation of the Turkish immigrants in the last decades.

The fourth chapter is describing the current refugee crisis and the response of the main authorities in the EU. Afterward, it analysis the inflows of refugees to Germany, country's attitude, and current situation of refugees in Germany. The last subchapter is examining the possible ways of integration of the current immigrants as the most important prerequisite to success.

The final chapter investigates short and long-term consequences of the refugee crisis in the macroeconomic and socio-political context. The last two subchapters are devoted to the important policy recommendations on the European and national level. In this context it is being examined, if the human capital may be used as a growth determinant.

The main purpose of this thesis is to create an overview of German economy over the last few decades and to determine, whether this model remains to be sustainable in the context of the changing global environment with the focus on the migration crisis. It aims to determine, whether the immigrants represent a challenge or an opportunity for the German economy.

1. Characteristics of the Federal Republic of Germany

Germany is a federal parliamentary republic consisting of 16 constituent states with about 82 million of inhabitants. It is the most populous state of the European Union and the second most popular immigration destination in the world after the United States (Euractiv, 2014). Germany is a developed country with the high standard of living and one of the highest GDP per capita in PPS in the EU. Its GDP exceeded 3 billion of euro in 2016 and is the highest GDP in the EU.

Germany is fully integrated into the international community, which is visible in the international affairs, where country has an important decisive role making it one of the great powers. Its power lies mainly in its role in the European Community as Germany became de facto its leader. Germany became a driving force in the European Integration and it was a founding member of the European Union in 1993 and of the Eurozone in 1999. Country is also a member of many world organizations, such as United Nations, NATO, the G8, and OECD. Germany is few years also the third largest contributor to the UN, and the largest contributor to the EU budget (19%) (Statista, 2017).

The history of the country is marked by the two World Wars and Nazi's tyranny, which even after a century cannot be forgotten. This history shaped Germany's role in the global affairs and its relations with the other countries. The past is burned into the Germans' collective memories as well as the guilt carried for the decades. That influenced today's decisions and German efforts to promote European Integration and humanitarian actions. Germany feels the responsibility that nothing like that ever happens again.

Germany is an open economy which has a strong industrial base and about two thirds of its gross domestic product is intended for export, making it the biggest exporter in the EU. Since the World War II, it has been able to participate in the international division of labour and has conquered a sizeable share of the world market. Because Germany is a very open economy, its economic decisions are subject to the country's need to compete on the world market. Despite this openness, protection exists in many areas of the economy and about a third of GDP is allocated in the social budget (Siebert, 2005, p.28).

The sector of service contributes about 70 % of the total GDP, industry 29 %, and agriculture just poor 1 %. As Germany is a very open economy and its openness counts up to 85 %, its export as a share of GDP contributes to something above 45 %. In 2014, Germany for the first

time recorded the highest surplus of the trade balance in the world exceeding even China, which worth was about 252 billion of Euro in comparison with Chinese 150 billion of 130 billion of Euro (Ettel, 2015).

Germany has been experiencing a continuous rise in well-being for many decades and it has been an example of the good working economy for many of us. The increase in welfare has benefited its society and German companies, for example, BMW, Volkswagen, SAP or DaimlerChrysler are competitive on a global scale. Because of this fact, big part of the German workforce is highly qualified and educated. In spite of occasional spurts of extremist parties in the parliaments of several federal states, the country has been politically stable and democracy is well established.

1.1 Theoretical definition of the German economic model

The economic model of Germany is based on the concept of the “*Sozialmarktwirtschaft*” or social market economy, which was developed after the Second World War and was associated with the “*Wirtschaftswunder*”. The social market economy is perceived as a third way between the free capitalism and totalitarian centrally planned economies. Market economy is seen as social because it creates material well-being, but market freedom is limited, as its results are sometimes socially undesirable (Gabler Wirtschaftslexikon).

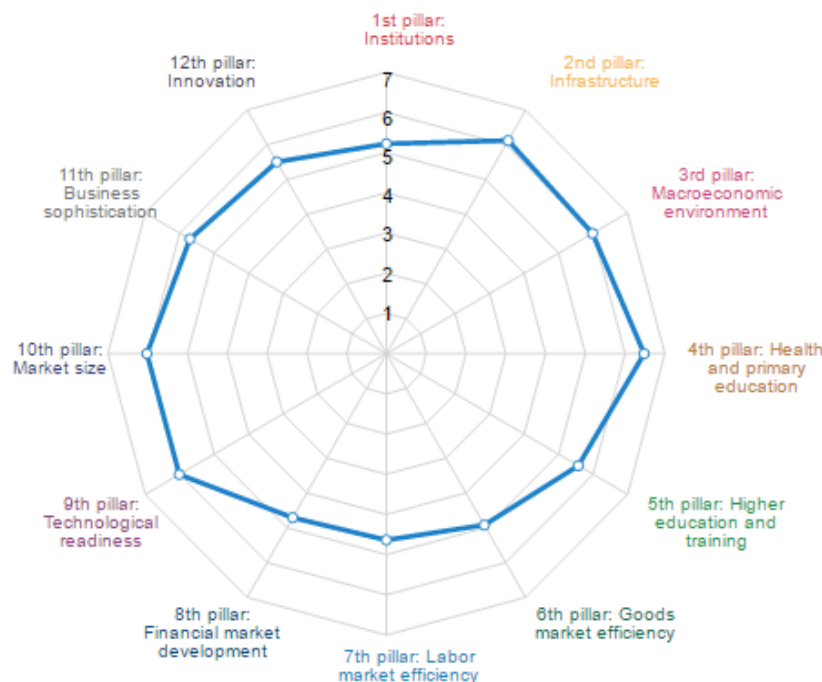
Social Market Economy is an institutional arrangement whose main targets are, on the one hand, individual freedom and choice, and efficiency through decentralized autonomy in a competitive order, and on the other, equity and social protection. The concept of social market economy has served to bring about German reunification in 1991. However, it has run into severe difficulties. The requirement of the “market conformity” of government activity model does not relate to its original idea, and the actual institutional arrangement contains incentives which can endanger the economic foundation of Germany (Zweig, 1980).

Germany has seen major changes in its economy since the end of World War II, from which one of the most important was the country’s integration into the world economy. This fact can be seen in the significant increase in German exports relative to GDP. Accompanying this higher degree of openness was a remarkable structural change and there has been a continuous shift away from the industrial economy, first to a service economy and lately to the information or knowledge-based economy.

The German economy is characterized by its large share of small and medium-sized companies which account up to 99%, or around 3.6 million companies. Those small and medium-sized companies make up the “*Mittelstand*” or the small and medium-sized companies, which can be defined as companies with fewer than 500 employees and annual revenue lower than 50 million Euro. These companies are operating in all kinds of sectors, offering all kinds of products and services, but mostly range from small, innovative software-smiths to globally operating mechanical engineering firms. Looking at the total employment in this *Mittelstand*, it can be seen, that they have the biggest share and are also justly called the backbone of the German economy (makeitingermany.com, 2016).

The government has a strong impact on German economy in as around one third of GDP passes through the state budget. In all of the domains, consensus plays a central role in the system of governance. The government itself is organized as a federal state, with tax revenue shared between the federal states. Germany’s labour market is heavily regulated as unemployment used to be a persistent problem for Germany. Social absorption is very high: the social budget, which encompasses all expenditures with a social objective, absorbs one-third of the annual production. This can be seen as an indication that Germany in the last decades opted for an intensive involvement of the state in its economy (Siebert, 2005, p. 125).

Figure 1: The 12 pillars of competitiveness



Source: World Economic Forum 2015

Figure 1 shows the competitiveness of Germany in the years 2014-2015 expressed in the 12 pillars. We can observe, that country is relatively competitive in Infrastructure, macroeconomic environment, health and primary education, technological readiness. On the other hand, the worst results were observed in the labour market efficiency, goods market efficiency, financial market development and institutions. Year after, in the Global Competitiveness Report of 2015-2016 Germany proved to be the 4th most competitive economy in the world right after the United States, Singapore and Switzerland.

1.1.1 Germany's policy successes

As already suggested, Germany proved to be an economic engine of the Europe. Its model is praised and perceived as the most successful member of the Eurozone, even the EU. It is one of the few economies, which income per capita have returned to its pre-crisis condition and the unemployment stays low. Following articles point out the exact successes Germany implemented in the recent decades.

- **Advanced manufacturing and job skills**

German success has been built on the advanced manufacturing which makes up about one-fifth of its total output. The key element of its dominance is the system of vocational training, which provides the backbone of Germany's skill base. Although Germans work fewer hours than other nationalities, workforce is not particularly productive and youth spend less time at school as others, Germany is an industrial powerhouse. Germany's industrial strength depends on the good-quality education system which provides a conveyor belt of highly skilled workers to meet the specific needs of the country's manufacturing base (BBC, 2012).

- **Competitiveness**

Behind Germany's success of its robust economy in the recent years lies the manufacturing sector and its competitiveness. German manufacturers have stayed globally competitive as their products are of better quality. In 2016 Germany climbed by one spot to the 4th place in its competitiveness where Germany excels in more areas of competitiveness: businesses are highly sophisticated and employing latest technologies in the production process, innovation system is characterized by high levels of company spending on R&D and it has excellent on-

the-job training (World Economic Forum, 2015). High tech remains a major source of employment and wealth creation in Europe.

- **Introduction of the Euro**

One of the cause of these successes may be granted to the Euro, from which Germany benefited greatly. Germany experienced an increase in the current account surplus specifically after the launch of the Euro in 1999 and Germany had become one of the major surplus countries of the world. The adoption of a much weaker currency than it would otherwise have had helped to bring success to the German exporters, whose manufactures became cheaper. Having the tremendous current account balances in hand with the relatively weak currency partly explains German successes.

- **High exports and current account surplus**

As Germany became the biggest exporter in 2016, some argues, that the German economy is innovative and contributes significantly to global growth. Country exports and imports mostly components for finished products as it has a powerful and competitive manufactural base. According to the study, Germany's surplus reflects a succession of distinct shocks and the most important factors driving it were positive shocks to the German saving rate and demand for German exports. However, the current account surplus is expected to decline in future years as wage growth picks up again (Kollman, 2014).

- **Low levels of private debt**

German nation has never been used to spend beyond their means. This proves both the low levels of private debt, as well as the relatively low government debt in comparison with the European average. While the rest of Europe were living on cheap credit in the last decades, the real interest rates in Germany were stable. This has been particularly beneficial to Germany mostly in recent years, as the spending did not need to be cut unlike in other European countries hit by the recession (BBC, 2012).

- **The labour market and wage reforms**

As Germany was facing high and persistent unemployment at the beginning of the millennium, the government implemented labour-market reforms, the so-called Hartz reforms.

These reforms were a part of a broader Agenda 2010 which laid the foundation for a stable and more flexible labour market. This Agenda also created a stronger employment protection legislation and firmer bond between workers and employers. Despite of their high unpopularity among the German public, they succeeded in bringing down the non-cyclical unemployment to around 5%-the lowest level since the reunification (IMF Working Paper, 2015).

- **The Great Crisis of 2009**

Although in 2009 Germany experienced the biggest economic slump since the World War II, German's labour market responded only mildly. Employment scarcely fell during the crisis and now is even above the pre-crisis levels. The reason that unemployment is lower than at any time since the German unification is that German workers were willing to reduce their working time (Stein, 2010). By its stability during the Great Crisis Germany has proven to be a strong case of internal flexibility (Zimmerman, 2012). Its general labour market flexibility, however, still stays relatively low.

- **Social market economy**

It can be argued, that much of Germany's economic success during the last few decades is thanks to its economic and social model „Social market economy “. After setting up of a social market economy, which was mainly based on the principle of competition, a social state and responsible social partners, system adjusted, Germany overcome its crisis, and became „*Wunderkind*“ of Europe (Schneider, 2013). The concept of Social market economy had benefited greatly to German economy and country proved, that short-term sacrifice is worth the long-term success.

- **“Mittelstand” – small and medium-sized enterprises**

Germany is well known for its countable share of small and medium-sized enterprises, which make up most of the companies in the country. These companies benefit from Germany's apprenticeship system, which provides highly skilled workers and there is a collaboration between employer and employees generally. Many of these companies are export-oriented and focused on innovative and high value-added manufactured products. This traditionally strong industrial base is one of the causes of Germany's success.

1.1.2 Germany's policy failures

Despite the German successes, country's economy shows serious signs of downsides. Economic growth has been rather slow since the mid-1990s, raising questions regarding the long-run energy of this European powerhouse. The economic model of Germany seems to be stuck in the past: export remain the main engine of the growth, investments are at the same level, there is an abundance of savings, bureaucratic hurdles have not been eliminated, domestic demand is weak, infrastructure is crumbling and there is a shortage of skilled labour force and aging population.

- **An undeveloped East compared to the West**

Exchanging the East German mark 1:1 for the West German mark implied an appreciation of the East German mark by some 400%. Wages quickly grew out of line with productivity and unit labour costs were 140% of the West German level in 1991 which meant eastern Germany was less attractive for investment. The lower level of life satisfaction in East Germany is even after almost 27 years after the reunification still persistent and the standard of living in the East Germany still does not reach the level of the West. This convergence has not been achieved yet and the process is still ongoing (Siebert, 2005, p. 31).

- **Real wages stagnation**

While in most other industrialized countries wages over the past 10 years have risen by 25% on average, wages in Germany have fallen. From 2000 to 2009, real incomes among German workers fell by 4.5 % inflationary adjusted (ILO, 2010). The development of the real wages should copy the pace of productivity, which was not the case of Germany. Productivity increased whilst wages fell. Meanwhile, other euro area countries witnessed wage growth rates in the 2008 crisis, whereas wage growth in Germany remained low. In 2008 Germany's bottom 90% of the population had even lower real income than in 1992 and wage as well as income inequality also increased (European Parliament, 2015).

- **A declining share of investment**

Position of the current account reflects the difference between domestic savings and investments. Germany has large surpluses, because it saves more than invests (Whyte, 2010). In Germany, the share of investment in GDP fell from 25% in 1991 to something about 18% in 2016 (IMF, 2016). The approximate ratio of savings to investments is 23 to 17 in Germany,

while in other countries this ratio is balanced, in some cases investments are even higher than savings (Eurostat). The low share of private investment is partly because of the low real estate investment after the burst of a real estate bubble at the end of the 1990s.

- **Low aggregate demand and too high current account surplus**

Low aggregate demand in Germany persisting for the decades is one of the causes of Germany's success in the international trade, specifically the large surpluses of its current account. The fact that Germany is selling so much more than it is buying redirects demand from its neighbours, reducing output and employment outside Germany at a time at which monetary policy in other countries is reaching its limits. The high trade surpluses benefits also very weak euro. Although Germany has little control over the value of euro, it has some other tools to reduce its surplus which would make most Germans as well as other nations better off (Bernanke, 2015).

- **Low growth performance**

Since 1980, the economy has been on much lower growth path than previously, except for the late 1980s, and since 1995 the increase in its production capacity is below 2% (Eurostat). The stagnation at the beginning of millennium is due to the impact of the worldwide downturn, particularly in the trade opened countries. Some economists, as Peter Victor says, though, that Germany is a mature economy, and mature economies grow at a slower pace.

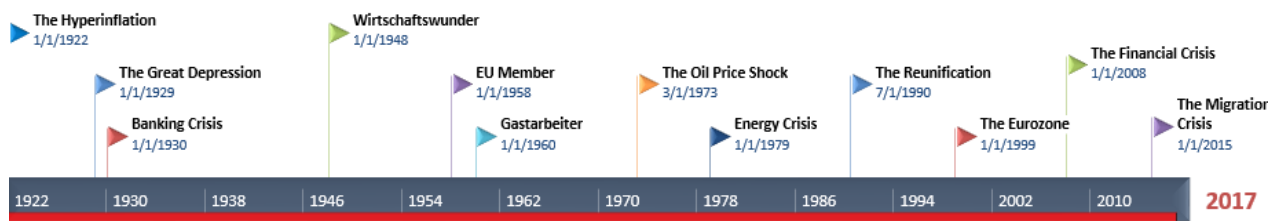
- **Little assimilation of guest workers (Gastarbeiter)**

Analyzing data from the Socioeconomic Panel, it was found, that guest workers earn 20-25% less than Germans and their earnings do not seem to catch up to the overall mean. This is since the guest workers are almost entirely confined to blue-collar positions (Pischke, 1992). Turkish immigrants and their descendants still come last in terms of literacy, education, living standards and employment. They are overall more visible today, but there is still a long way to go before Turkish immigration can become a success story (Hoff, 2011).

1.2 German economy over the last decades

The economic history of the country seems it went through it all: it experienced the devastating consequences of the two World Wars, hyperinflation, the Great recession, economic boom, restructuration, and the oil prices shocks, creation of the European Community, reunification and adoption of the common currency. In the recent years country has been over the Global financial crisis, followed by the European debt crisis and last, but not least, the current migration crisis.

Figure 2 Main economic events in Germany (last hundred years)



Source: Author

Figure 2 captures the main economic events during the last century when Germany went mostly through the reunification, restructuring, recessions and reforms.

1.2.1 German economy until the reunification in 1990

The first decades after the Second World War were devoted to the process of catching up with the other countries' economies, such as the US. The economic growth was of the average value 2%, with its minimum in 1975 because of the oil price shock, and its maximum in 1990 as the reunification process begun (Siebert, 2005). Few years after the World War II, in 1948, the concept of Social Market Economy was established by currency reform, price liberalization and reintegration into the world economy. Since then this term is associated with the *Wirtschaftswunder*, as Germany experienced very positive outcomes in its economy.

Table 1 below shows, that the Gross Domestic Product's growth was the highest in the years 1950 - 1970 and then started to grow more slowly. The GDP more than doubled in these two decades which indicates high prosperity and declining unemployment which reached its minimum of only about 1%. Inflation was also very low which was thanks to the new established Deutschmark as a stable currency.

Table 1 Basic macroeconomic data, average values (1950 – 1990)

Years	1950-1960	1960-1970	1970-1980	1980-1990
GDP in bil EUR	88,92	223,42	540,95	968,64
GDP Growth (%)	8,2	4,4	2,9	2,6
Inflation CPI (%)	1,77	2,41	4,89	2,87
Unemployment (%)	6,69	1,03	2,83	7,88
BOP in mil EUR	1 160,40	4 469,20	15 823,10	38 363,80

Source: Own calculations according Destatis

The crisis in the seventies did not harm the German economy as expected and although the growth pattern became more slowly, GDP and the balance of trade surplus continued to rise. Inflation was the average of 2% throughout all the years with the exception in the 70s when it was almost 5 %, what was the trend in Europe at that times, though. However, the biggest increase in the absolute value was the surplus of the Balance of Payment which reached almost 40 billion of Euro in average in the 80s in comparison to something above 1 billion of Euro in average in 50s. We can, therefore, claim, that Germany was an export superpower already in the years of unification (Eurostat).

Although many economic indicators improved in the second part of the 1980s, the year 1980, the second oil shock, and the following recession in 1982 can be viewed as a turning point of Germany's economic development. The GDP growth was lower, the unemployment higher, and the economy changed its properties without the politicians really noticing (Siebert, 2005).

Slow economic growth and bad investment performance in the 80s was except of the negative oil price shocks caused by the wage increases and the high real interest rates, which worsened the cost situation and the capital returns significantly. That hampered investment and Germany's growth potential. There was also an institutional deterioration: an increasingly rigid labour market, regulations and bureaucracy. These developments contributed to the structural problems which resulted in rising unemployment (Grömling, 2014).

Second half of the 80s, Germany experienced a gradual recovery and a small boom in the West Germany, which was described as a „*little economic miracle* “. Tax reforms and better unit labour cost at the end of the decade enhanced labour incentives and the investment climate. The improved economic climate at the end of the 80s was due to the gradual accomplishment of an economic and monetary union in Europe (Grömling, 2014).

1.2.2 German economy until the acceptance of Euro in 1999

After the reunification of the West and East Germany in 1990, the country remains highly disunited mostly economically. During the first phase of this unification, eastern Germany was even in the deep recession, whereas the western Germany was experiencing a small boom.

The new common concept developed as a result of reunification was *Aufbau Ost* or Building East, and it indicated all economic policy measures that were intended to adjust the living conditions in East to the level of the West. East Germany's living conditions were to be adapted to West German conditions, which should have to prevent a massive migration to the West Germany. The revival of the East should be completed with the *Solidaract II* by the end of 2019 (Bundeszentrale für politische Bildung, 2016).

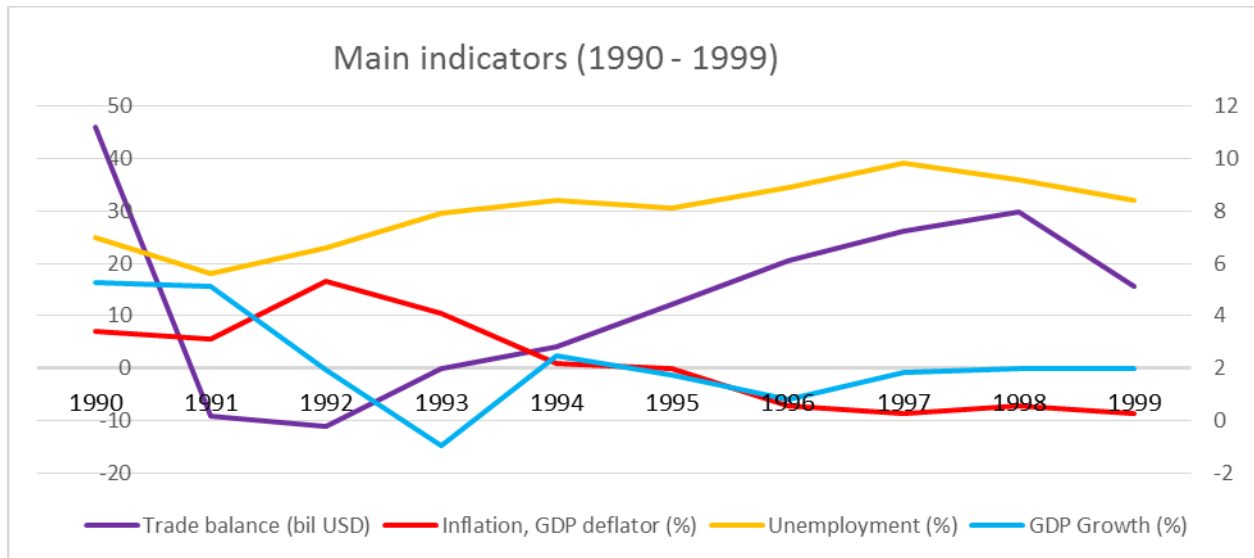
High economic differences between the East and the West Germany can be expressed by the level of convergence. In the year of reunification (1991), level of East Germany's income per capita relative to Western Germany was 33%, while in 2013 it was 67%. The projections show, that if the convergence speed of East Germany remain at 3%, it would take until 2085 to reach the convergence level 96% (Probst, 2014).

East Germany has received enormous transfers from West Germany in the last 25 years amounting to about 2 trillion Euros as of 2014. As of 2014, institutions, infrastructure and the level of human capital per worker are still not comparable between East and West Germany. Economic convergence will continue and East Germany will slowly catch up over time. This process is, however, very slow and it will take several decades until the full convergence is achieved (Probst, 2014).

The fall of the Berlin followed by a migration from East to West, which makes the gradual economic reunification almost impossible. A swift economic, monetary and social union in early 1990 was agreed on as the situation became more unstable and the process of reunification was irreversible. Afterwards, the Deutschmark was introduced and the political reunification followed. Restructure of the West Germany on a large scale was also laid in the early 90s. Shortly after the beginning of the process, East Germany slipped into a severe recession in 1993, while East Germany's GDP was still growing due to the construction boom (Grömling, 2014).

Since the reunification Germany was taking more active role in the EU and together with the other countries it signed the Maastricht Treaty in 1992, established the Eurozone in 1999 and also signed the Lisbon Treaty in 2007. The targets of these actions were making the EU the most competitive economy as a whole based on the information society.

Figure 3 Main economic indicators (1990 – 1999)



Source: Own processing according to Destatis

As we can observe from the Figure 3, an economic growth went from the positive 5,26% in the year of 1990 to the decline and in 1992 even reached the depression of -0,96%. The development was not positive either with the unemployment as it was constantly rising and reached its peak in this decade of around 10%. Years after the reunification we can observe the increasing trend in the volume of exported goods since 1993, although in 1992 the Trade Balance reached its minimum of -11,13 billions of Dollars. Considering the Balance of Payment and mostly its Current account, this decade had the most negative outcomes and Germany gained its nickname as a „Sick man of Europe “.

„Taxes keep rising, the pension and health insurance systems are failing. More and more companies are going bankrupt or are leaving the country. Unemployment has reached alarming levels. Germany is outperformed by its neighbours. Its growth rates are in the cellar, and it cannot keep up with Austria, the Netherlands, Britain or France. Germany has become the sick man of Europe. “ (Sinn, 2003).

1.2.3 German economy since entering the Eurozone in 1999

The euro, a common currency for most of the European countries was introduced on January 1, 1999, when it's worth was about 1,17 USD (Krugman, 2015, p. 7). The common currency of the Eurozone makes many things more transparent and many obstacles in doing business have been removed. Euro has reduced the cost of cross-border transactions by eliminating exchange rate risks and exchange fees. Country profited greatly from this rapid economic development.

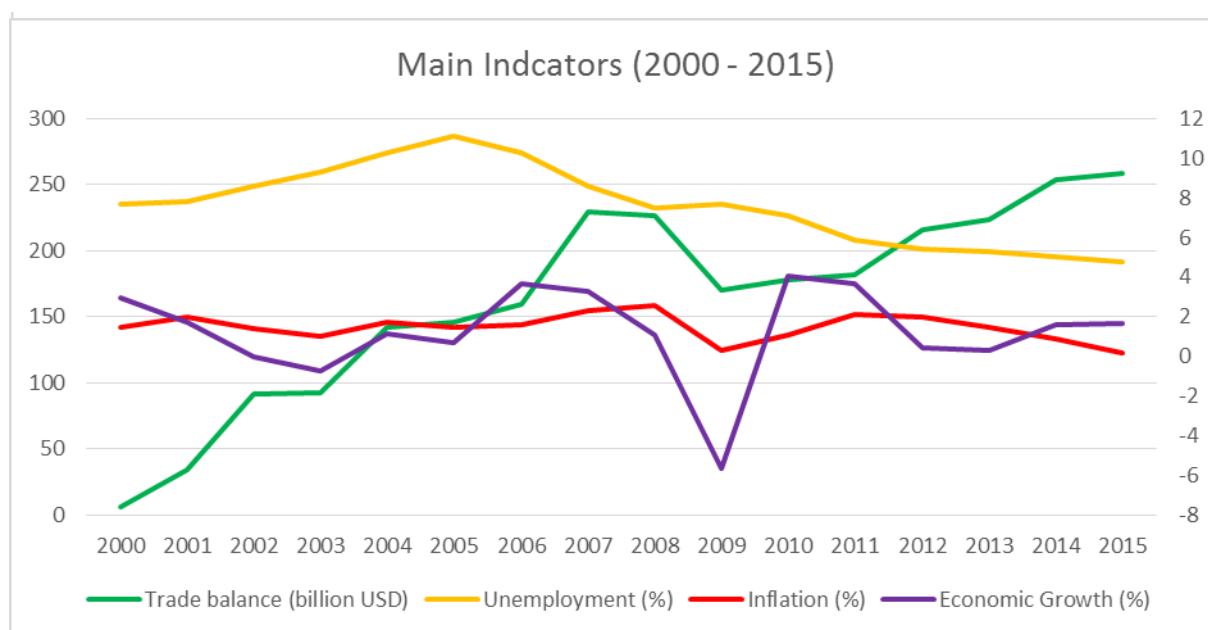
As Chancellor Angela Merkel emphasized: „*Germany is profiting from the euro like hardly any other country.* “ (Faz, 2011). Although it is believed, that country profited from the increased international trade within the Eurozone, statistics have shown, that German foreign trade with countries outside the euro area has grown stronger than that within the euro. Euro, however, have a big disadvantage: a country is not able to use its monetary policy anymore, which is also the case of Germany (Plickert, 2011). The disadvantages and some scepticism of the results of the euro are visible in the economic growth: Germany has the lowest economic growth amongst all the members.

When the euro was introduced, the German economy was not on a good way. An unemployment was high, economic growth low, and Germany was called a Sick man of Europe. This had, of course, its consequences on the weakness of the euro and the Eurozone, as Germany makes up large part of its GDP. Germany had enjoyed a short-lived post-unification boom which turned negative in comparison with other European countries. The blame could be laid on a tight macroeconomic policy when the Bundesbank kept its interest rates high as well as on the need to comply with the single-currency countries growth and stability pact (The Economist, 1999).

As Germany entered the common monetary union in 1999, its producers and exporters were prospering significantly as euro was a weaker currency than Deutschmark. Year 2000 was the best year since the 90s as real GDP expanded by more than 3% and employment grew. However, already in 2001 German economy started to stagnate and continued this development until 2004. This stagnation led to job loss, poor consumption, and investment crisis. Germany did not benefit from cheaper financing due to lower interest rates as other countries, which resulted in a recession leading to high unemployment, which forced the government to introduce some labour market reforms leading to lower wages (Grömling, 2014).

The precarious economic situation led to a reorientation of economic policy. One of this series of reforms introduced by the government was Agenda 2010, which aim was to reform the German welfare system, promote an economic growth and reduce unemployment. Although the reform succeeded in the reduction of unemployment and the rise of economic growth, it's been claimed that it had also decreased the standards of living significantly (Schröder, 2010).

Figure 4 Main macroeconomic indicators (2000 – 2015)



Source: own processing according Eurostat

Figure 4 shows, that the German economy was at the beginning of the 2000s practically stagnating: growth was decreasing, unemployment increasing and inflation was stable. However, the very positive trade balance was recorded as of the introduction of euro and as the world economy was experiencing growth and therefore higher demand. In 2006 and 2007 GDP grew by more than 2.5% and labour market also improved significantly.

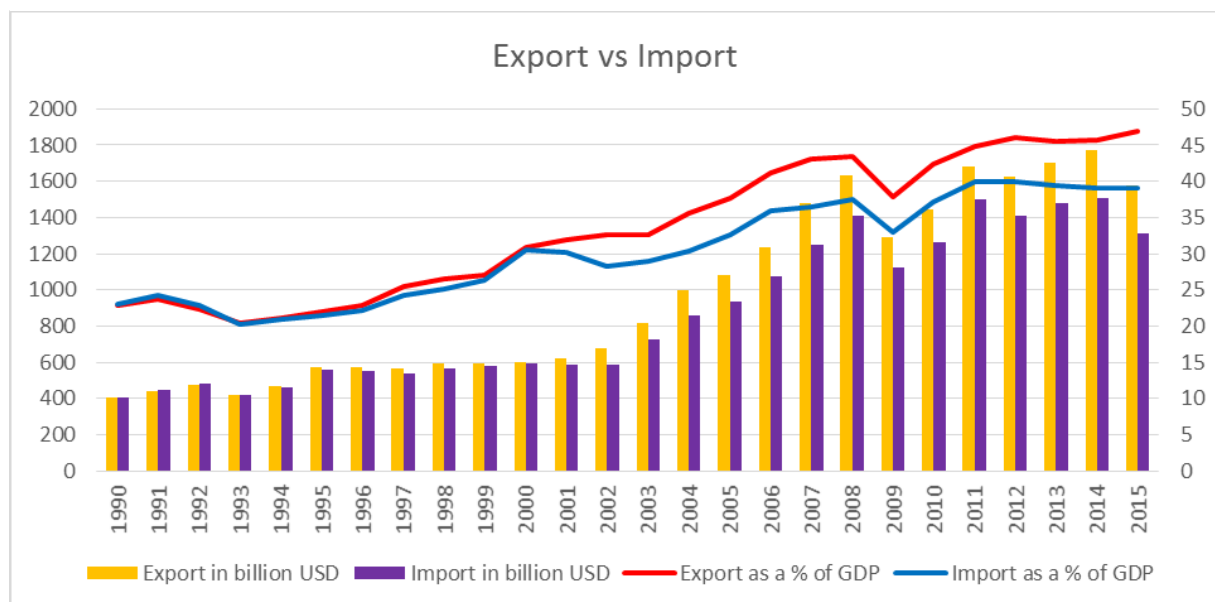
As the world, economic crisis of 2008 broke out, there was no country in the world which would not be hit by the downturn. In Germany, this hit was except the deep depression of 5,62%, felt in several ways as for example exceptionally low-interest rates, lower inflation, almost stagflation and huge losses of the banks, or in some cases collapses. Because of the lower demand from almost all its European trade partners, a volume of export fell significantly and the Trade balance went by 56 billion of Dollars down (Eurostat).

Surprisingly, German economy has shown itself to be much more resilient against the global economic turmoil which could be shown by the exceptionally high economic growth of 4% in

2010. The reason of this was also the fact that the value of euro has slumped considerably which made the German exporters much more competitive on the international markets. Even the labour market did not experience any remarkable downturn, which was due to the specification in this market explained in the previous subchapter.

The year 2011 was record-breaking for the German economy as the German companies exported goods for over 1 trillion of Euros and the number of people in work risen to over 41 million – the highest figure recorded (Spiegel, 2011). The country's entry into the European Union and subsequent entry in the monetary union showed to be positive to facilitate trade and eliminate transaction costs of currency conversion. The benefit to the German economy was also the eastern enlargement of the EU in 2010, which removed technical barriers of mutual trade with the important trade partners.

Figure 5 International Trade and its development

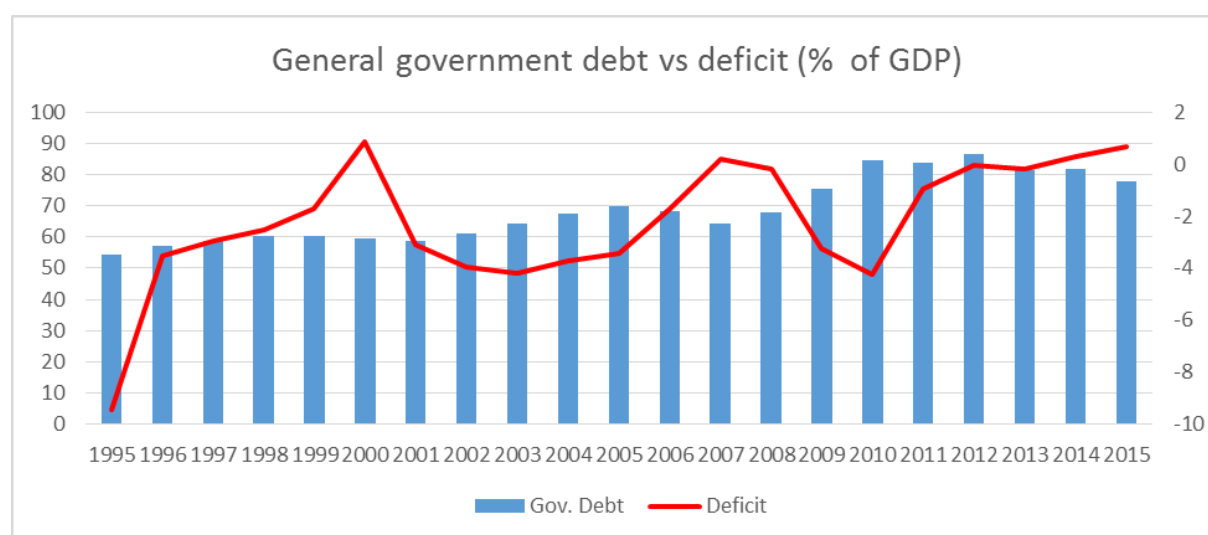


Source: Own processing according Eurostat

Figure 5 shows, that development of the international trade in Germany since the reunification has been mostly positive, except for 1991 and 1992. Since the 2004 has been the German Trade balance rising, but due to the global financial crisis in 2008 fell by 14% but quickly recovered and next year in 2010 even overtook the pre-crisis level. In the last few years, we can see the trend of slightly decreasing import and increasing export. This year, Germany exported goods to the value of 1 123,7 Billion euros and imported goods to the value of 910,1 Billion euros (Destatis).

Although the development of the public finances has been much better than in other European countries, the government debt has steadily risen during the last four decades. German's budget reached a record-high deficit of well above 50 billion of euro and the debt surpasses 1,7 trillion approaching 80% of GDP. The financial crisis and the ensuing recession can explain these high levels of indebtedness only partially. According to the OECD report, Germany, as well as other European countries, has lived far beyond its means, despite its reputation as a paragon of fiscal rectitude. Therefore Germany decided in 2009 to adopt strict fiscal rules called *Schuldenbremse*, or „debt brake“, which requires the federal government to run a structural deficit of no more than 0,35% of GDP by 2016 (Schäuble, 2009).

Figure 6 General government debt vs state budget



Source: Own processing according Eurostat

Since 2012, the general government budget has fulfilled the criteria of being close to balance. In 2015, Germany succeeded in generating a general government surplus of 0,7% of GDP. By 2015, Germany had balanced the federal budget for the first time since 1969. This balanced budget was helped by strong tax revenues and extremely low-interest rates, but it is unlikely that this will turn into spending that could boost weak Eurozone growth. The country had been aiming to achieve a *schwarze Null* and it even got there a year ahead of schedule. Income tax revenues were bolstered by record employment, which peaked over 43 million, and spending significantly less on debt interest payments were because of the historically low-interest rates (The Guardian, 2015).

Despite the slow economic growth, the German economy is still doing well compared to the other European countries. The biggest challenge and the threat for the future economic

development will be the nation's declining birth-rate, to which will be the separate chapter devoted in the latter. In 2017, German fiscal policy will have a clearly expansionary impact on the economy. These expansionary policies include higher spending on measures to provide humanitarian assistance and to promote the integration of refugees, as well as tax relief for families, single parents, and low-income earners. The future demographic development of ageing population and shrinking workforce is generating greater fiscal burdens on the government (German Stability Programme, 2016).

1.3 Macroeconomic analysis of Germany compared to selected countries (Great Powers)

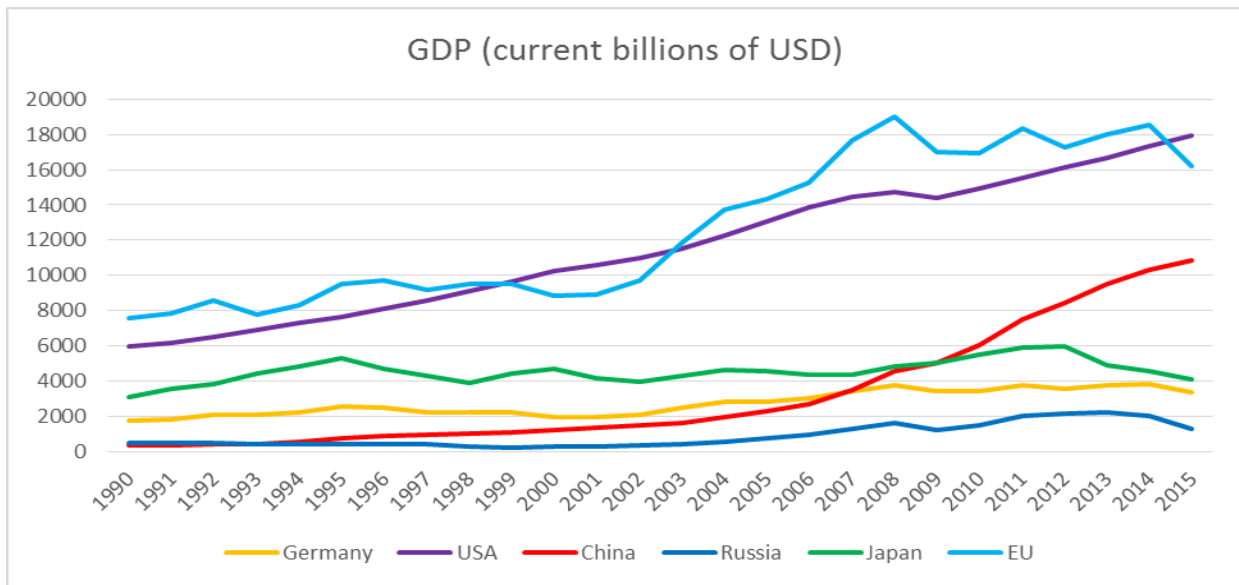
This subchapter describes the specific macroeconomic indicators and their development over time. The particular indicators are as well compared with the global superpowers as the USA, China, Japan, Russia, and the EU as a whole. The focus is on the indicators as an economic growth, GDP, Inflation, Unemployment, Trade Balance, National Debt, Current Account, and public finances.

- **Gross Domestic Product**

The Gross Domestic Product of Germany by sector consist of 0,7% of agriculture, 30,2% of industry and 69,1% of services. Considering that Germany is a big and open economy, it is dependable to the other countries, mostly importing European countries (CIA-The World Factbook). As Germany counts for the biggest economy in the European Union, its share of the world GDP is notable. The peak was reached in 1980 and 1995 when its share of the world GDP was over 8,5%. However, this figure was constantly declining with the biggest percentage change in 1999 – 2001 and it counts only for about 5% nowadays.

In Figure 7 we can observe that the German GDP was not rising as significantly as the GDP of other powers, but its development was rather stagnating. The biggest difference can be seen in the example of the USA when its GDP tripled. That was also the case of the European Union , which GDP rose significantly mostly after adopting the common currency. The development of Russian and Japan GDP had the similar course as the German one, however, China even overtook Germany in 2007 and its GDP is almost triple nowadays.

Figure 7 Development of GDP in particular countries



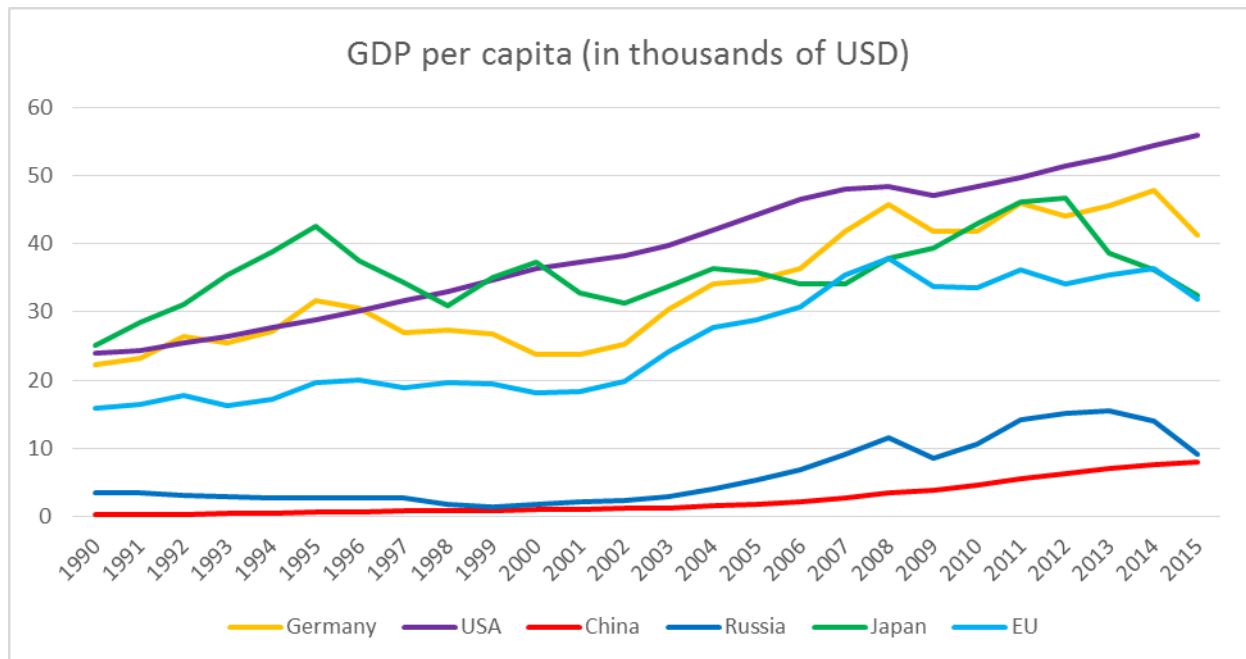
Source: Own processing according World Data Bank

- **GDP per capita in selected countries**

Amongst the compared countries has only USA higher GDP per capita as Germany, which is from the 17th place to the US as of the tenth place. Although the development of the economic performance per inhabitant in the USA, Germany, and Japan was more or less the same, during the millennial years we can see this development started to derogate. Whereas the US line kept rising, other countries' development was either stagnating or fluctuating. From the chosen powers China reports the lowest economic performance, which GDP per inhabitant is just as much as a fourth of the developed countries. Although this crisis had its source in the USA, the decline was the slightest and now its GDP per capita exceeds 55 thousand of USD.

From the Figure 8 below we can see that Germany has the high advantage over other countries as Russia and China, which GDP per capita is the fourth of the German's one. Interesting is the development of the Russian GDP per capita which was much above the Chinese one but the Ukrainian crisis and European embargo made it fall tremendously. From the comparison of the EU average and the German one, we can see that they are copying each other which expresses the events with the same consequences.

Figure 8 Development of the GDP per capita



Source: Own processing according World Data Bank

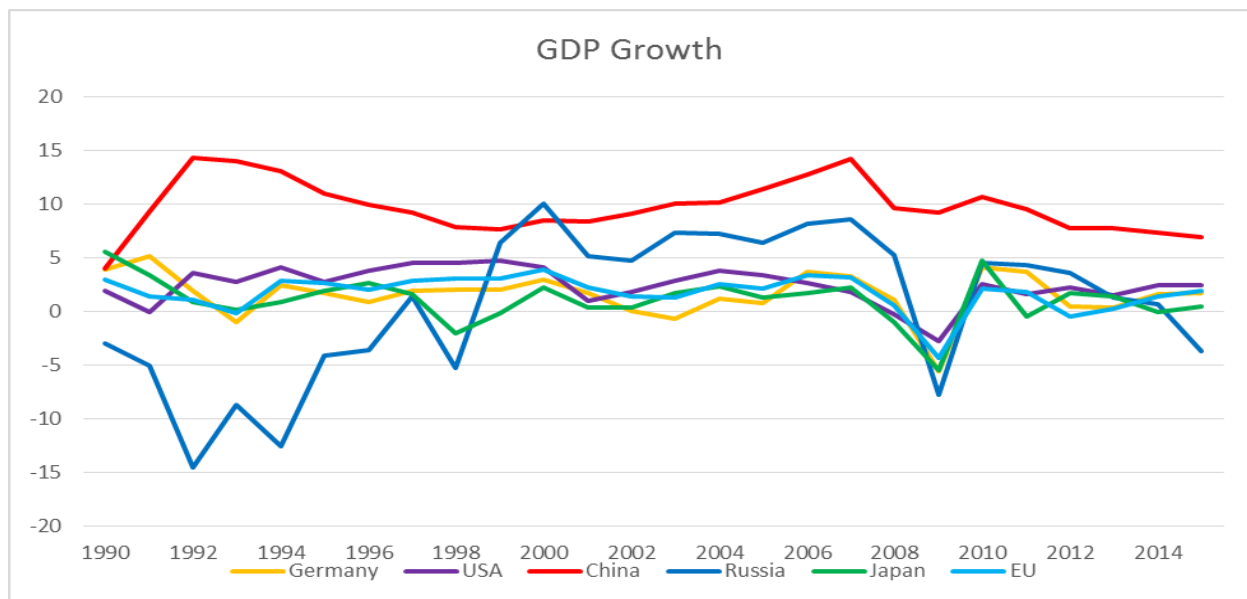
- **GDP growth in selected countries**

Shortly after the reunification, the growth had declined sharply from 5% to the recession of -0,14% due to the differences in the individual economies. Since this downturn in 1993 German economy was recording a quite promising recovery and reached its peak after adopting the common currency at the turn of the millennial. Germany entered the recession at the end of 2001 as the economy suffered from the global tech crash and from the introduction of the labour reforms Hartz. After that, however, expansion continued until the arrival of the global crisis in 2008. The post-crisis development is characterized by the significant fluctuations in the GDP and generally can be stated, that the selected countries exhibit the same trends.

The early 2000s recession affected economic activity in most of the developed countries and as can be seen from the Figure 9, the downturn is being copied amongst them. Some countries have avoided the recession, while Russia's economic activity began to rise and reached the highest peak of 10%. From all the countries in Figure 8 we can see that the economic performance had been fluctuating most in there, whereas in China it's been rather steady. The performance in other three countries as in Germany, USA, Japan and in EU has been developing very similarly, and though in the range between 0 - 5%. The highest decline in the

GDP growth could be measured worldwide during the outbreak of the world financial crisis in 2008, where most of the countries except for China reported depression.

Figure 9 Development of the GDP Growth

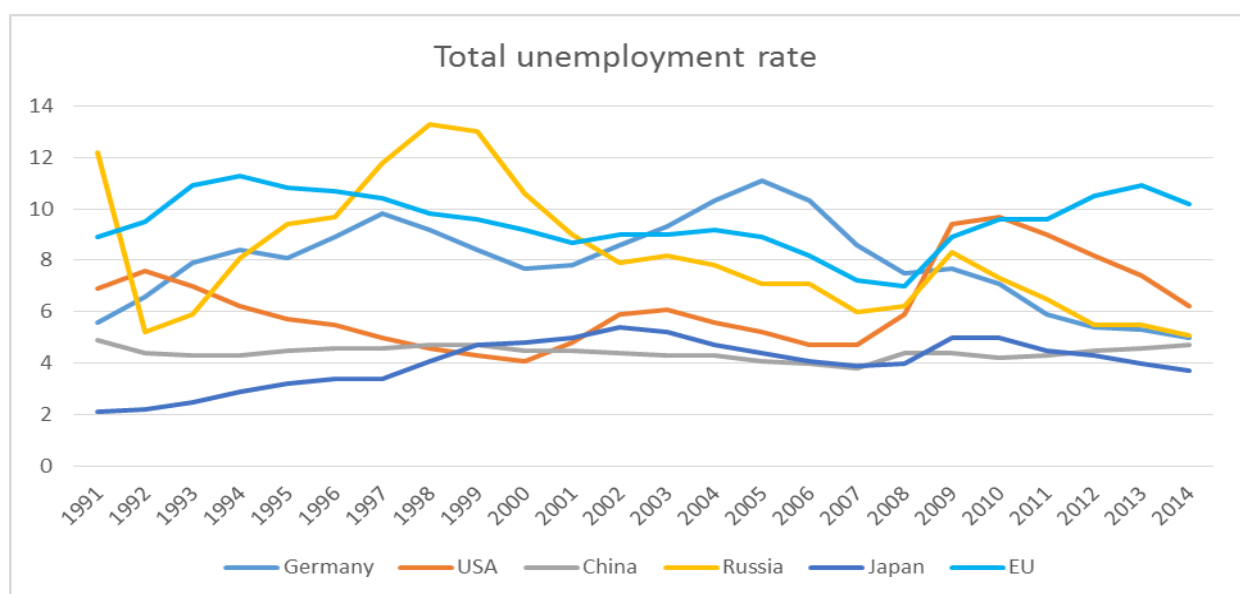


Source: Own processing according World Data Bank

- **Unemployment in selected countries**

Considering the employment in Germany, currently, there are more than 43 million of people employed and just 1,65 million unemployed, with the unemployment rate 4,6% which is the lowest in the EU-28 (9,4%) and is also the lowest in Germany in the last ten years.

Figure 10 Development of the Unemployment rate



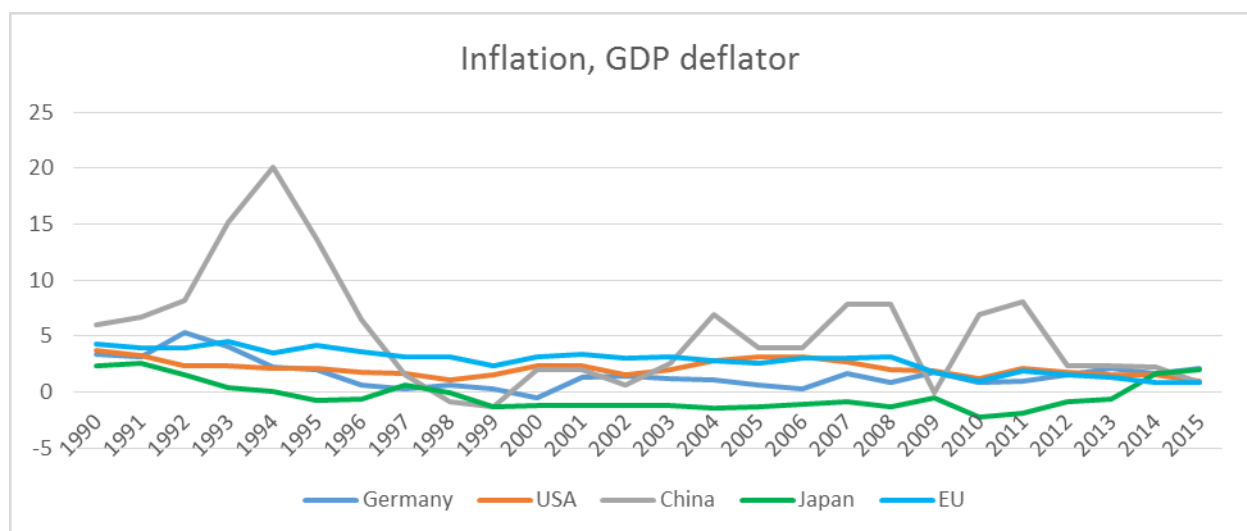
Source: Own processing according World Data Bank

When we compare Germany's unemployment in the years before the global financial crisis of 2008, from the Figure 10 we can observe that the one of Japan, China, and USA used to be especially low. However, since 2008, the curves' course had differed. German's unemployment came to its pre-reunification level, whereas the USA and the EU had risen considerably.

- **Inflation in the selected countries**

In the long term, the inflation in Germany is rather stable and below the EU average, although this trend has changed in the latter. The inflation rate in other compared countries has been rather stable, except for China where it is fluctuating considerably. However, during the last years, there has been an equalization and all of the mentioned countries are recording inflation rate in the range of 0,8 - 2,1%.

Figure 11 Development of the Inflation



Source: Own processing according World Data Bank¹

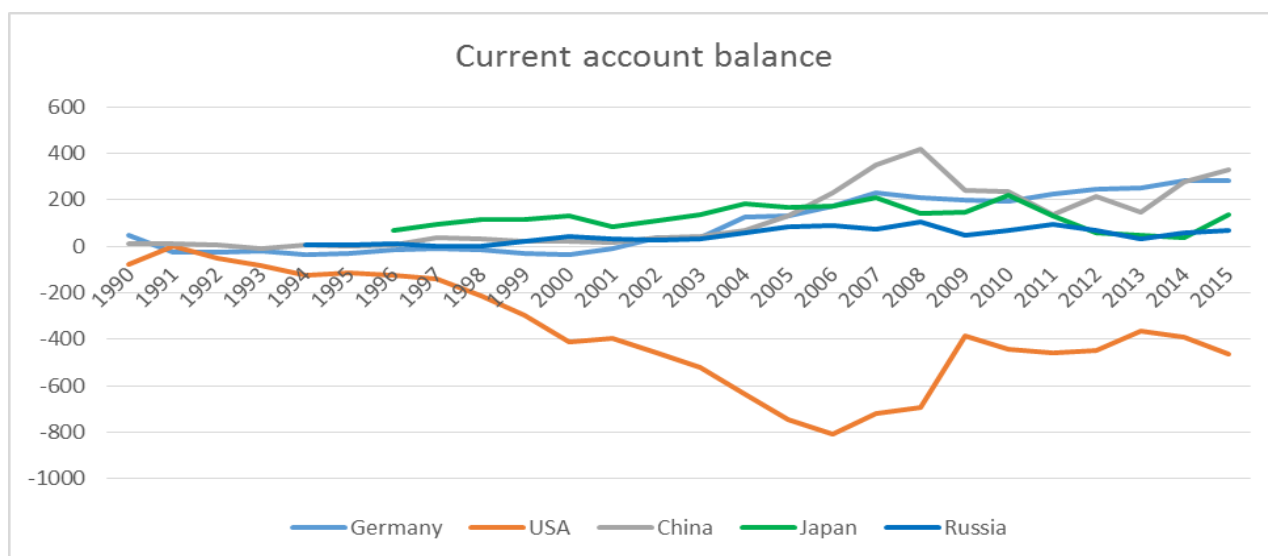
- **Balance of Payment in the selected countries**

Figure 12 shows the development of the current account of the chosen countries. In the case of Germany, the current account has not always had a positive balance and until 2002 it was negative. If the country has a negative balance account, it means that its expenditure exceeds income and the economy consumes more than it produces and vice versa. After 2002 the current account balance has been increasing constantly. This is both because Germany

¹ Note: Russia was skipped this time for the hyperinflation after the fall of communism

adopted the common currency and because of the eastern enlargement in 2004. The development of the Current account balance has the similar trend in the other countries, just apart from the USA. There has not been recorded a positive balance since decades and there is no indication that this should be changed.

Figure 12 Development of the Current account balance (in billions of USD)



Source: Own processing according World Data Bank²

1.4 Political situation in Germany

The German Democratic Republic (East Germany) joined the Federal Republic of Germany (West Germany) on 2nd October 1990 after the long and complicated development. The current form of the relations between the federal level and the individual countries is the result of a gradual cooperation. Based on the Constitution of the federal countries, there has been in each country a parliamentary system created, which is like the one applied at the federal level.

Germany is a parliamentary republic and the head of the state is since the presidential election in 2017 Frank-Walter Steinmeier and his powers are mostly representative. The basic law or so-called Grundgesetz is the constitutional document under which operates the German political system since 1949. The government consists of the federal ministers and since 2005 the federal chancellor is Angela Merkel from the Christian Democratic Union (CDU), who is also the head of the government and one of the most influential people in the world (International Business Publications, 2012).

² Note: no data for Russia and Japan in 1990s

Merkel's governance in 2005 – 2009 was due to the lack of the risk a period of economic stagnations. Afterward, the German economy has begun to revive thanks to the German export and Asian markets. The unemployment has declined sharply and her popularity grew vigorously. One of the priorities of the Chancellor was strengthening transatlantic economic relations and removing the barriers to trade as well as keeping the European Union altogether.

When in 2009 Angela Merkel defended her post as a Chancellor, her new term had started at the time of the onset of the debt crisis in the Eurozone. Together with the French President Nicolas Sarkozy and European Commission President Manuel Barroso, she took a key negotiating position. When the euro crisis came, Germany became admired island of stability for the global markets. The investors were buying the government bonds, whose revenues were nearly at zero so that Germany could reduce debts and submit their balance budgets.

Since December 2013 German government consist of coalition Christian-democratic Union CDU, Christian-social Union CSU, which is its Bavarian offset, and Social-democratic party SPD. Since the outbreak of the European debt crisis, the governance of Angela Merkel faced many obstacles and criticism about her position to keep the European Union together at any price. By the end of the year 2015, Angela Merkel had been through not one but two existential crises, which could have meant the end of the European Union that kept the peace on Europe's continent since the World War II.

„Angela Merkel managed to leverage German economic power into diplomatic power to lead a major security effort on behalf of the world, which, most importantly, entrusted her with that effort. This attainment has been fully recognized not only by her partners but by her harshest political opponents as well. “ (Poroshenko, 2015).

The attitude of Angela Merkel towards the Eurozone has significantly influenced the approval of the rescuing measures for Greece and other so-called PIIGS countries, which were highly indebted. Merkel is the big advocate of the common European currency and political union and the measures she undertook were inevitable to save the Eurozone. Therefore Germany, as well as Angela Merkel are perceived as leaders of Europe and many hopes have been put in them.

The political successes of Angela Merkel changed with the third crisis she faced, and though the refugee crisis. Merkel's caution seemed to transform as the millions of refugees were coming to Germany since 2015. In 2015, she was perceived as an unbeatable politician, so far, the strongest one in the Europe. However, with the inflow of immigrants, people began to

speak about possible successors. With her controversial migration policy and the criticism, she faces, it is believed, that she could lose the federal election which are being held in September 2017.

2. Germany and the EU

Germany makes up for around 20% of the EU GDP and it contributes over 20% to the EU budget. Germany is often informally claimed as a leader of the EU because it is the economically strongest and politically one of the most stable countries in Europe. However, the formal power of Germany is disproportionally low. The EU has two legislative bodies, and that is the Council of the European Union and the European Parliament. As there are 28 members of the Council, the same vote goes for everyone, no matter the size of the country.

Germany is claimed to be a leader also because it is actively engaged in the EU politics while some other countries may be showing the lack of activity. Germany is aware of its leading role and that is also why it acts like a leader. Its important collaborating partner is France, as they both represent two very different approaches to the EU governance.

There is one selfish reason why is Germany so powerful, doing almost anything to save the European Union and Eurozone. That reason is the Euro. If Germany was still using its Deutschmark, which would be much stronger than the currencies of other countries, buying German products would be too expensive making for exporters difficult to compete on the international level. Germany's economic growth is driven by exports and its continuous increase even during the crisis in the euro area.

We will examine the impact of Germany and its policy in the euro area during the euro crisis more closely.

2.1 The role of Germany in the Euro crisis

When between the years of 2008 – 2009 the debt and financial crisis in Europe broke out, Germany insisted that it is ready to do everything to save the Eurozone. It was even willing to collect the money from the members of the Eurozone to create a rescue package, the highest part of it intended for Greece. However, it remains questionable, whether it really wanted to save the recession-torn countries of the euro area or the banks, where flew the biggest share of the financial rescue package.

Germany has partially contributed to the current situation in the peripheral countries when it allowed the breach of the Stability and Growth Pact and let the peripheral countries to borrow at the same interest rates as more credible countries, including itself. The euro has helped to reduce the risks perceived by investors, which caused that the countries with significant structural differences were perceived uniformly and therefore almost risk-free.

According to the Ministry of Finance of Germany, the country has in 2010 – 2015 profited from the euro crisis around 100 billion of dollars in the interests due to the high investor demand and declining interest rates (Worstell, 2015). But it is not entirely correct to speak about the profit from the crisis because of the rescue packages to indebted countries it had to provide, and because of the very low economic growth in Germany in the recent years. Despite this, as it was already said, the economic performance of the German economy was still one of the best from the euro area.

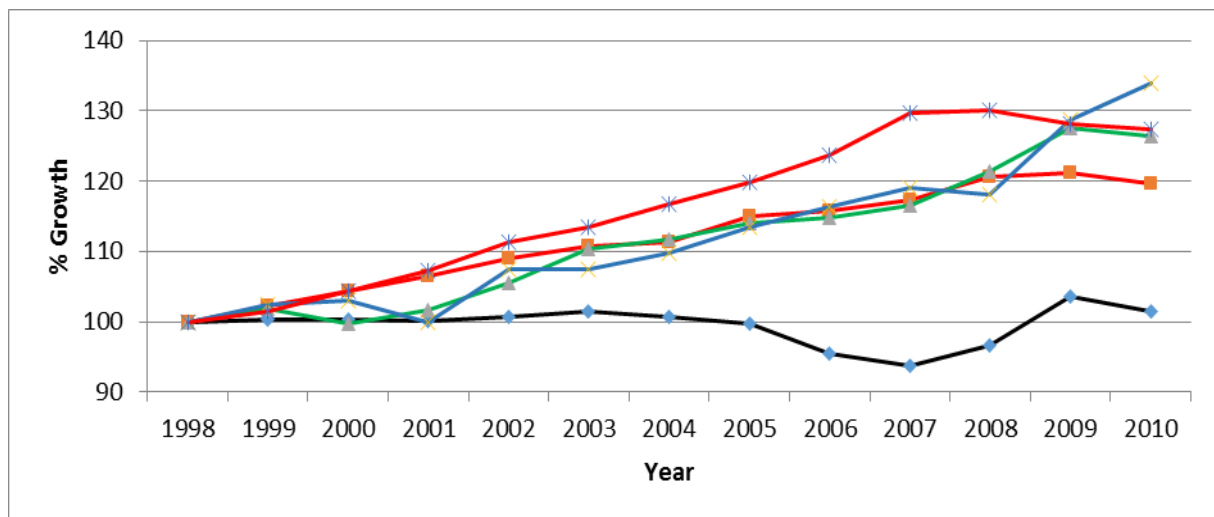
2.1.1 Beggar-thy-neighbour

“Beggar-thy-neighbour is an international trading policy that utilizes currency devaluations and protective barriers to alleviate a nation’s economic difficulties at the expense of other countries. The goal of a Beggar-Thy-Neighbour strategy is to increase the demand for your nation’s exports while reducing your reliance on imports.” (Investopedia.com).

Euro crisis had that effect of getting to the initial state, where yields in peripheral countries were again high and in the core countries were low. They stopped being trusted and perceived as homogenous with Germany and their ratings began to decline sharply as government bond yields soared. Southern states began to be blamed for their profligacy and laziness and it was the media, which was forming the opinion about life in these countries. They became hated which was further undermining their credibility and therefore worsening their situation. However, they are not the only one to be blamed.

Germany has for many years pursued a policy of wage suppression, to which is by many economists referred as “beggar-thy-neighbour” policy. Germany’s economy has regained its competitiveness, but it may have come at the expenses of other countries such as Spain or Greece. Germany’s competitiveness has been crucial to its well-being. Declining real wages and a modest upswing in productivity have produced a sustained drop in the unit labour costs. Lower wage costs have helped boost exports and jobs creation (The Economist, 2007).

Figure 13 Growth of the Unit labour cost in Germany and PIGS countries



Source: Own processing according Eurostat

Suppressing the increase in the unit labour costs can be seen from the Figure 13, where Germany represents the black line. Basically, the same level of the wages was maintained throughout the whole decade until 2010 when they started to rise slowly.

Germany's current account surplus of 8,6% of GDP is the world's largest surplus and the „rules of the game „are, that countries with such a surplus should boost the demand. However, these countries refuse to do so and the burden of adjustment falls on the deficit countries, which must tighten even harder. The procyclical policy asked from the policymakers made the peripherals countries suffer more, as GDP was declining and debt as a ratio to GDP stagnating or even rising. This resulted in the downward spiral which dragged everybody into the depression. „*The world economy is in a terrifying nosedive, visible everywhere. The high degree of European economic integration gives Germany a special strategic role right now.*“ (Krugman, 2008).

It was believed, that an austerity in the EU would be for the German economy disastrous because the decrease in consumption would be at the expense of German exports. Despite those claims, the hypothesis that an excess current account Germany reached depended only on demand from other Euro area countries and thus has contributed to the deepening of a crisis is incorrect.

One-third of the surplus of the current account is created because of the international investment position of Germany. Also, much of the surplus is caused by the foreign trade with the rest of the world and not with the euro area. Trade surplus mainly reflects trade in

intermediate goods and capital. The increasing demand for capital goods from Germany became especially evident during the global recovery from the financial crisis.

The leading cause of the high external surpluses were, however, low domestic investment. High surpluses caused by the development of savings and investments are more a reflection of the weakness of the domestic economy than its external force. In short, the scope of its external surplus draws attention to the necessary reform of Germany - a conclusion which is contrary to the current view that improving the competitiveness of peripheral countries is all that is needed to reduce imbalances in the euro area (Whyte, 2010).

If German competitiveness suggests something, then it is the discipline of its workers and not the glaring economic efficiency. A result, that the changes in fair wages have always been lower than the growth rate of labour productivity, was the decline in the German effective exchange ratio. The decline in its real-effective exchange rate has thus been a major factor in the increasing share of exports in the world market while the countries, where the unit labour costs were raising constantly, were losing its competitiveness. However, it would be wrong to claim that Germany's gained competitiveness was exclusively at the expense of the others because the peripheral countries would not be able to compete to German's products even at the same costs. Their low competitiveness is caused mainly by their internal weakness.

According to the Peter Navarro's trade philosophy, the warped mechanism of the monetary union allows Germany to lock in a permanent beggar-thy-neighbour trade advantage over the peripheral countries as it saps global demand and distorts the world economy (Evans-Pritchard, 2017). German policy would not have been successful without the EU law and its policies of fundamental freedoms. Continuing to behave like a successful economy is not a model for the rest of the Eurozone, not only because it beggars the neighbours but also because it does little for ordinary people in Germany (Schelkle, 2013).

2.2 Eurozone's structural problems

Structural problems in the euro area began to show since the birth of the euro in 1999 and may be associated with the differences in wages and inflations in the member countries. The problem was, that countries before entering the Eurozone were not economically equal and unified currency just deepened this issue. The Eurozone, therefore, could never be an optimum currency area, since interest rates in countries with low credit ratings and less

credibility and higher risk were higher, while in the core countries were low because investors trusted them.

After the establishment of the European Monetary Union, we could observe the convergence of the interest rates on one hand and ending the process of reducing the differences in living standards between the countries on the other one. Low-interest rates contributed to higher private sector borrowing of peripheral countries and stimulated the growth of the economy behind the level of potential output. The result of this development was the relative growth of prices and wage costs, as well as of the aggregate demand of the periphery versus almost no growth in the core countries and thus losing their competitiveness.

The Maastricht criteria, since the beginning, faced criticism of one-sided focus on the monetary and financial indicators, which reflect only the nominal side of the convergence process and neither of those criteria do not consider the real economic development of the country, as the level and growth of labour productivity, the level of real GDP growth, the level and dynamics of the average real wages, etc. Economic differences between the transition countries to the euro area average can be reduced only by sustainably higher economic performance and as we could see, the peripheral countries certainly did not show us such as (Mandel et al, 2008, p. 326).

After the introduction of the euro in the peripheral countries, they were showing the high levels of economic growth which was based on the increased aggregate demand run by easy money access and people living on the debt instead of the prospering economy. As the wages were rising, competitiveness and thus export were decreasing, which could be seen in the growing balance of payment deficit. These countries are not competitive enough because of the lack of production and small manufactural base. Their economy stands on the small to medium-sized companies for which is hard to resist the competition from abroad.

Table 2 Comparison of the selected economic indicators in Germany and PIGS countries (2013)

Country	Population (mil)	Fiscal debt (%GDP)	Current account (%HDP)	GDP growth	Unit labour cost growth	National income/person (USD)	Unemployment	State budget (% HDP)
Germany	82	80	6,92	0,1	2,74	44 791	5,32	0,15
Portugal	10,5	130	-0,2	-1,35	-4,00	26 177	16,44	-4,85
Italy	61	130	1,43	-1,92	2,05	35 058	12,19	-2,83
Greece	11	170	0,59	-3,85	-6,33	25 681	27,5	-12,69
Spain	46	87	-1,55	-1,22	-3,21	32 737	26,11	-6,79

Source: Eurostat

World Bank economists Sanchez and Varoudakis (2014) found, that imbalances were indeed caused by the entry into the Eurozone and falling of the interest rates, which started the obtaining of loans and consequently increased consumption in these economies. These interest rates did not take into the account economic competitiveness and national levels resulting from the introduction of the common currency. After the adoption of the euro thus lenders thought that even the weaker states were in financial straits and that more creditable states would save them. That contributed to an even higher aggregate demand in these countries.

Until the introduction of the euro, each country had its own currency and over the exchange rates, it could compensate for the differences in competitiveness. With the common currency, Germany produces artificially more competitively than it would with its own currency and we could have an impression that it disposes of the viable industry in the south of the euro area. (Sulík, 2013).

The European Central Bank made that mistake that it was taking care of the development of the euro area economy as a whole, even though it was not sure if the euro area is the optimal currency area. It should have first take care of the convergence of the less developed countries so the Europe can be closer to this optimal currency area.

2.3 Economic policy in the context of crisis

Last year, Germany again complied in full of the rules of the Stability and Growth Pact. The economy is posting solid growth, and the domestic economy is demonstrating robustness as wages and employment are increasing appreciably (Federal Ministry of Finance, 2016). As worries about the recession in the Eurozone were rising, Germany was doing much better than its neighbours. It has low unemployment, very low inflation, a large trade surplus and a balanced budget. By contrast, most other members of the Eurozone were stagnating or going through the great recession. The German government says that it is its own success and its neighbours' failures are unrelated, and that poor performance is due to poor decisions. However, this claim would be wrong (Eleftheriadis, 2014).

Germany's economic size, its position of creditor, and its better performance during the sovereign debt crisis allowed it to impose the model based on austerity and deflation to peripheral countries in crisis. *„If only others would emulate the German model, there would be no crisis in the Eurozone “*, so the argument goes. However, the German model cannot be implemented by anybody. Choosing the German economic model, Europe would condemn itself to a secondary role (Saraceno, 2013).

Some may think that countries should take an example from Germany. However, the transformation of the euro area to larger Germany would have negative consequences not only for Germany itself but also for the Europe and the rest of the world. Germany can only be an economy with chronically weak demand and huge external surpluses because the others are the exact opposite. If the peripheral states should become more „German “, Germany would have to do it the other way around and be less „German“(Whyte, 2010).

Despite the sacrifices that German workers did in the last decade the domestic economy is still weak in the long-term and it needs an urgent reform. Massive surpluses of the current account are not a reliable measurement of economic prowess. The country became dependent on loading savings from abroad to grow at all. While savings in Germany are especially low, investments are, on the other side, insufficiently low.

In the recent years, income divergence in Germany has increased. The labour market has become dual and a few millions of workers, many of them foreigners or migrants, are now dependent on extremely low salaries. Wage Growth in Germany averaged 0.80 percent from

2006 until 2016, reaching an all-time high of 2.70% in the second quarter of 2015 and a record low of -1.40% in the fourth quarter of 2007 (Trading Economics).

The decline in the population, together with the increase in life expectancy makes the Germans one of the oldest populations in the world. One way to compensate for the decline of the labour factor in the production function is to increase capital intensity in service industries. Over the next 20 years, the number of pensioners will increase by 50%, while new workers will fall by 20%. Having reached the lowest unemployment rate since the eighties, it may change the relationship between demand and supply of labour and lead the major trade unions to demand annual pay increase of about 7%. The level of unemployment reached is below the natural rate and gives rise to wage increases above expected inflation (Bastasin, 2013).

In the current migration crisis, Germany has involuntarily become responsible for the inflow of the immigrants and must deal with it politically, economically and morally correctly. Germany must lead Europe out of the crisis through its resources as well as to prevent a potential domino effect on the global economy. The question here, however, arises: Can be those migrants perceived as a possible solution and the replacement of Germany's declining population? Or they are going to end up as an inflow of migrants in 60s, who were even after so many years not completely assimilated? We will try to examine the possible scenarios more closely.

3. Migration and its economic sustainability

The European migrant crisis began in 2015 when the numbers of migrants arriving in the European Union had risen significantly. They were crossing the Mediterranean Sea through Southeast Europe, mostly Turkey, Greece, and Italy and their aim was mostly Germany, Sweden, and Austria where they sought for the asylum. These refugees were mostly coming from the Middle East, Sub-Saharan Africa and Western Balkans and most of them were Muslim.

There have been many changes in Germany over the last months up to years since the outbreak of migration crisis in Europe. The leading person in this migration crisis in Germany has been de facto Angela Merkel, whose so-called „politics of open door „has been either applauded or criticized from many sides. *„I do not believe that Europe can be led and*

managed by only one country alone. But it is right that in this situation many are looking towards Germany. “said Peter Altmaier, Merkel’s chief of staff (Wagstyl, 2016).

Germans are opening their homes to refugees and they even have a word for it: *Willkommenskultur*, which was used a few years ago by politicians to encourage skilled labour force from abroad to move to Germany. While other European governments are closing the borders, Germany opened its border to more than 270 000 asylum seekers in September 2015 alone, while in the whole year of 2014 it was just 200 000. In the year of 2015 was Germany ready to accept 6000 migrants. When the photo of the drowned Kurdish boy appeared in the media and became viral, Merkel announced: „*Wir schaffen es*“– „*We can do it*“.(Wagstyl, 2016).The question remains, what actually can Germans do? Is it able to take millions of asylum seekers and let them integrate?

In 2015 was Angela Merkel praised as the saviour of Europe as she opened the gates of Germany to millions of refugees. The attitude of Merkel to the migration crisis is that immigrants should integrate and adopt the culture and values of the country. As more migrants were coming in a hope of promised better life, the doubts if Merkel is really the right person to lead this crisis appeared. Germany was divided in two tribes: the ones who support her decisions, and the ones who do not.

3.1 Theoretical impact of migration

Migration has a huge impact both on the place that has been left behind as well as in the place that one is migrating to. These impacts can be both positive and negative and can be even controversial. Although the economic impact on migration has been intensively studied during the recent years, it is publicly perceived rather negatively, leading in some cases to antagonism. These negative views are jeopardizing efforts to adapt migration policies to the new economic and demographic challenges many countries are facing.

According to the OECD study (2014), we can look at the migration’s impact in three areas:

Labour market:

- Migrants accounts for 70% of the increase in the workforce in Europe over the past years
- Migrants fill important niches both in fast growing and declining sectors of the economy;
- Migrants contribute significantly to labour-market flexibility in Europe.

„Migrant workers make important contributions to the labour market in both high- and low-skilled occupations “(OECD, 2014). Statistics show, that in 2015 the labour force consisted of 42,228 million of inhabitants, of them 8,365 million was a population with a migrant background. (Destatis)

„In Europe, free movement migration helps address labour market imbalances “(Jauer et al., 2014). Recent estimates suggest, that a quarter of asymmetric labour market shocks may have been absorbed by migration within a year. Ongoing studies have also shown that migrants who come to find work are better qualified than national workers and consequently raise work productivity. In a calculation model, the German Council of Economic Experts has estimated that migration, in general, will have very positive growth effects on medium-term production potential in the next few years. If only qualified immigrants were considered in this kind of estimate, the results would be even more positive.

The Public purse:

- Migrants contribute more in taxes and social contributions than they receive in benefits;
- Labour migrants have the most positive impact on the public purse;
- Employment is the single biggest determinant of migrants’ net fiscal contribution.

„Migrants contribute more in taxes and social contributions than they receive in individual benefits “(OECD, 2014). The fiscal effect of immigrants depends on their characteristics. Those, who are young, skilled and working in highly-paid jobs make a more positive net fiscal contribution. Calculating the fiscal impact in Germany is a challenge, as there are different methods how to calculate it.

According to the study, EU migrants in Germany received 14.8 billion EUR in benefits in 2013 and paid over 40 billion in the form of taxes in 2013. EU migrants, therefore, have made a positive contribution to the German government budget as they paid about 25 billion more than received. If we exclude old-age pensions as well, the net fiscal impact was still 11 billion EUR (European Programme for Integration and Immigration, 2014).

A policy study by Sinn and Werding (2001) concluded, that immigration represented a net fiscal burden to Germany in 1997. However, they have also found, that long-term immigrants who stayed over 25 years produced a net surplus. Therefore, it can be concluded, that fiscal

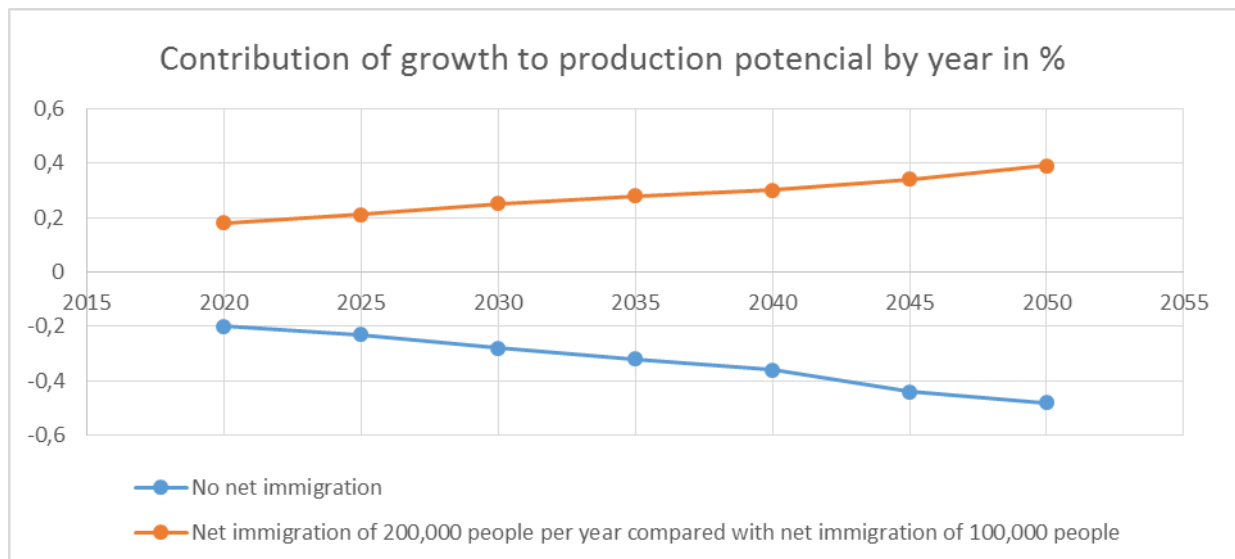
impact of migrants depends on many factors and it cannot be clearly identified. However, most studies have found, that this impact is less than 1% of GDP, even less (Kerr, 2011).

Economic growth:

- Migration boosts the working-age population;
- Migrants arrive with skills and contribute to human capital development;
- Migrants also contribute to technological progress.

„Migration contributes to spur innovation and economic growth “(OECD, 2014). Where migration expands the workforce, aggregate demand can be also expected to grow, as well as GDP. Then, migration has a demographic impact not only by increasing the size of the population but also by changing the age pyramid and reducing the dependency ratios.

Figure 14 Contribution of growth to production potential by year in %



Source: Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2011)³

Figure 13 illustrates the prediction of the growth to production potential for the upcoming decades with the two scenarios: The more favourable way is the one when there is a net immigration of 200 thousand people per year as the production potential grows in the range of 0,2 – 0,4%. The other scenario when there is no net immigration shows rather negative predictions, as the growth of production potential is in the negative values.

³ Note: immigrants are 20 years old and have the same qualification structure as native Germans

3.2 Germany and its demography

Currently, there are 81.2 million inhabitants in Germany from which 7.7 million (9.5%) have foreign citizenship and 9.35 million (11.5%) are Germans with migration background (Destatis).

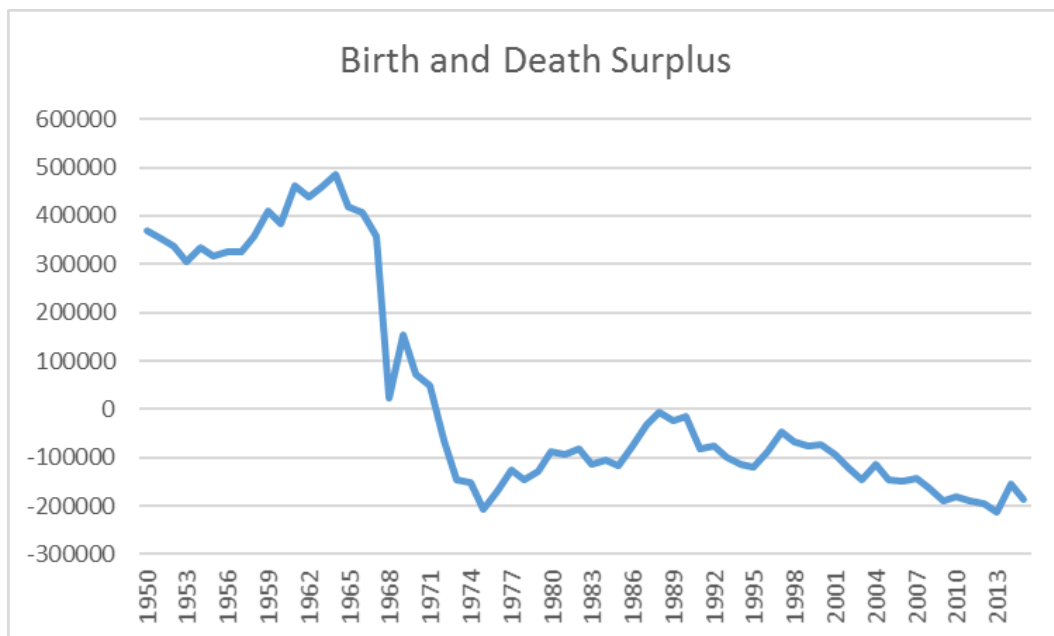
Table 3 Germany Population clock for 2016

Population	Live births	Deaths	Natural increase	Net migration	Population growth
81 248 691	677 614	878 298	-200 684	251 871	51 187 (0.06%)

Source: Countrymeters: Germany Population clock

As of January 1., 2017, there was an increase of 0.06% compared to the population the year before. This increase was due to external migration, as the natural increase was negative. This negative trend can be seen from the following graph as well where it is obvious, that without net migration German population would be decreasing every year by some 200 thousand. However, if we look at the growth rate which includes net migration, the negative trend has already stopped in 2012, where the population grew by 0.03% and was strongest in 2015 when it reached 0.53% (UN DESA, 2017).

Figure 15 Birth and Death Surplus



Source: Destatis: *Bevölkerung: Lebendgeborene und Gestorbene*

From the Figure 14, we can see the significant decrease in German population which has begun to be apparent since the 60s and turned even into negative numbers in 1972. As of 2015, there was a net loss of population accounting for almost 190 thousand. A thousand inhabitants account for an average of 9 births in comparison with 11,3 deaths and this gap continues to spread.

Table 4: Population in Germany with a migration background

Extended nationality	with migration background in the narrow sense	from that: with their own migration experience
Turkish	2,851,000	1,364,000
Polish	1,702,000	1,334,000
Russian	1,222,000	957,000
Kazakhstan	946,000	737,000
Italian	776,000	442,000
Romanian	657,000	547,000
In total (All the migrants)	17,118,000	11,453,000

Source: Destatis: *Bevölkerung 2015 nach Migrationshintergrund*

Table 4 shows, that most of the population with migration background includes people with Turkish extended nationality. This is because of the so-called *Gastarbeiters*, who were talked about previously. The second and third biggest minority includes people with Polish and Russian migration background, of which many are of Polish or Russian descent, but many of them have lost their ancestors' identity during the World Wars.

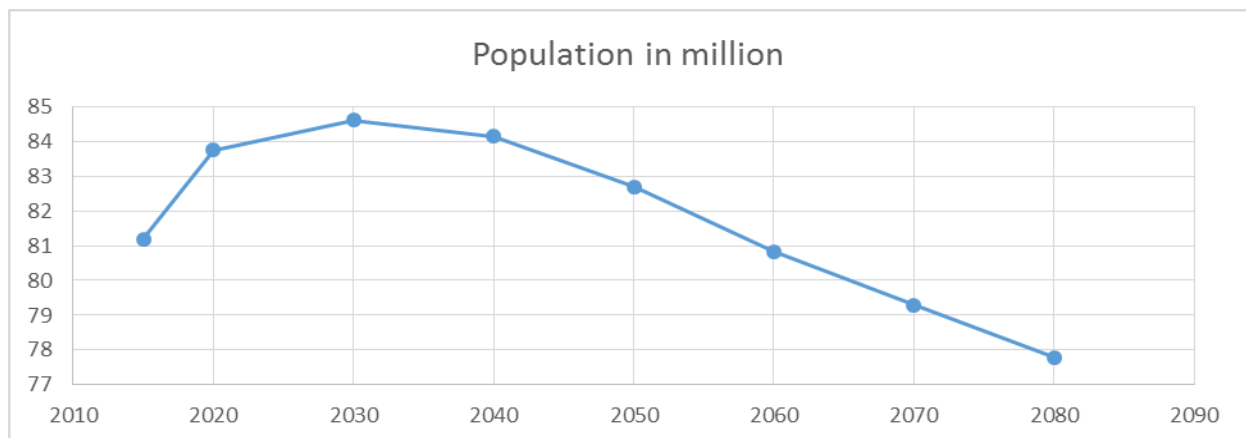
As of 2015, there were altogether 17,1 million of people with migration background and estimated 80% of them do not intend to come to their countries of origin. These people with migration background are however considered migrants in the narrow sense which mean, that many of them were either born in Germany or have one parent being a German citizen. Migration background is an official statistical criterion for the description of a population group consisting of persons immigrated to Germany since 1955 and their descendants (Destatis).

The number of *foreigners* registered in the Foreigners' Central Register by the end of 2015 was 9.11 million which is an increase of almost one million (12%) in the comparison with previous year. The number of the foreign population creates 53% of all the population with migration background (Destatis).

3.2.1 Future's predictions on demographic development in Germany

A lot of researched has already been publishing on the potential economic consequences of the ageing population in developed economies. It is unavoidable, that the share of people above the age of 65 will increase significantly in all European countries, and predictions do not look favourable. The ratio of the number of people who are not economically active to the labour force is going to increase and this is a threat to the sustainability of social welfare system as well as to the economic growth (Loichinger, 2015).

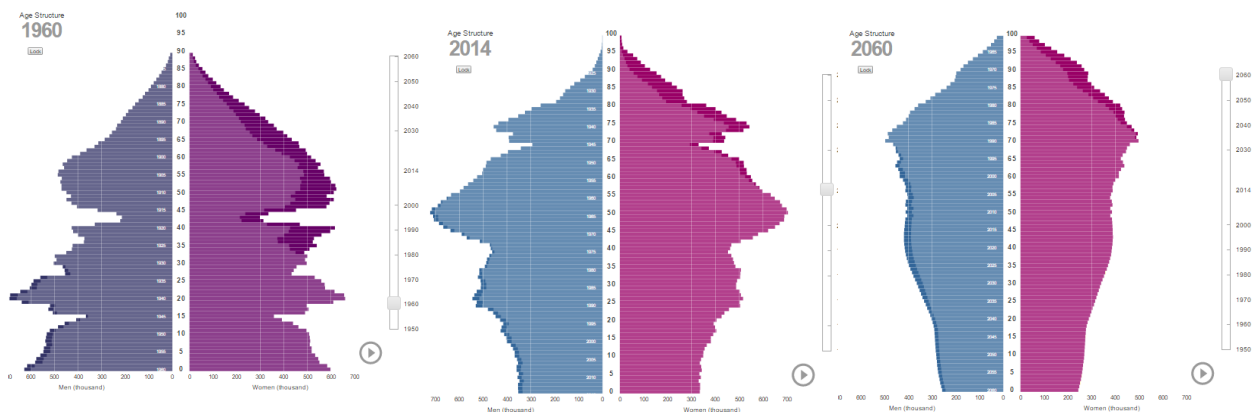
Figure 16 Population in Germany – Prediction



Source: Own processing according Eurostat

Labour force participation rate in Germany is projected to rise from the current 61% to around 64% by 2020 (Eurostat). In absolute numbers, labour force in Germany is going to rise from 42 160 million as of 2015 to 43 695 million in 2018. This rising trend is going to be diminished even with the migration and the labour force will be back at 40 million by 2030, and around 37,7 million by 2040 (Börsch-Supan, 2003).

Figure 17 Population Pyramids



Source: Destatis: 13th Coordinated Population Projection for Germany

Figure 17 shows the so-called Population Pyramids of Germany, which reflect the structure of the population and its various age groups. From the first pyramid (the year 1960) it is visible, that population is concentrated rather at the bottom of the pyramid, which means its relatively of young age. The latest official statistics from 2014 show the change of the shape this pyramid, when the population is concentrated somewhere in the middle and thus its relative age is somewhere around fifty. Concerning the predictions of the future pyramid, the highest share of the population is conversely to the first pyramid, concentrated rather at the top meaning that most of the population will be around 70 years old. The darker shades of a purple express overhang of women over men.

Table 4 Population – Age structure and Old-age dependency ratio

Year	Age structure (in %)			Median age	Old-age dependency ratio (%)
	65+	20-64	<20		
1950	10	60	30	34,9	16
1960	12	60	28	34,2	19
1970	14	56	30	33,8	25
1980	16	58	27	36,2	27
1990	15	63	22	37,1	24
2000	17	62	21	39,6	27
2010	21	61	18	44,1	34
2020	23	60	18	46,3	38
2030	28	55	17	47,6	50
2040	31	53	17	49,8	58
2050	32	52	16	50,9	60
2060	33	51	16	50,5	65

Source: Destatis: *13th Coordinated Population Projection for Germany* ⁴

Increases in longevity in the case of Germany ensured that the old-age dependency ratio in % more than doubled in the last 60 years and in the next 40 years would even triple. The old-age

⁴ Data in green are predictions and the population of Germany was 70 million in 1950.

dependency ratio measures the number of elderly people as a share of those in the working age. This ratio shows the pressure on the productive population by the dependent part of the population. Whereas in Germany in 2010 this ratio reached 34 %, the world's average was only at 11,7 %. By 2050 this ratio will peak to 60 % in Germany and the world's one will reach 25,4 % (The Economist, 2009).

A better educated but shrinking labour force is likely to be able to alleviate some of the anticipated economic consequences of population ageing. Future immigration can partially rectify fiscal imbalances resulting from an ageing population as the net migration to the Europe is expected to maintain a positive overall growth rate until 2035. However, thereafter, projected immigration will not be sufficient to maintain a positive growth rate (Kerr, 2011).

„The current high immigration has only limited effects on the long-term population trends. It is mainly reflected in short-term population growth, but cannot reverse the trend towards increased population ageing. The current age structure of the population is expected to have a stronger impact on the demographic development in the next three decades than the immigration to Germany. High net immigration can, however, slow the pace and lessen the extent of population ageing.“ (Destatis, 2016).

3.3 Economic sustainability of migration

The impact of ageing population on social security system is important mostly in terms of financial sustainability. This financial stability must be well balanced with the adequate pension benefits and with political sustainability as all pension benefits represent a transfer of resources from the economically active population to the retired one. Global demographic changes put a pressure on the consumer's opportunities and thereby on the sustainability of pension finances.

More sustainability in the financing of social security systems means that the rising costs of social security in aging society are distributed more evenly between all generations. This is a central prerequisite for the acceptance and legitimacy of the systems throughout the population. It is necessary, that the contribution ratio of the systems does not shift unilaterally to the burden of the younger ones. A policy needs to incline to the goal of generative equal treatment. A reform of the social security systems with the aim of ensuring sustainability is a

response to demographic development. It would help to maintain the system and at the same time achieve the principles of intergenerational justice.

National German social security system is financed on a pay-as-you-go basis meaning that current pensions are paid out of current contributions. This system is very generous comparing to other countries and is highly dependent on a change in ratio of working age as the population is ageing. The pressure exerted on this system by ageing population makes this system unsustainable. This has led to a reform process that began in 1992 and is still ongoing.

The important step was made in 2004 with the introduction of the so-called sustainability factor into the pension formula. This factor makes the current value of pensions a function of the ratio of pensioners to contributors in the system. Current pension value is 30.45 Euro and current retirement age is 65 years and 5 months and it is rising every year by one month up to 67, although the Bundesbank suggested to rise it to 69. With the decision taken in 2007 to gradually rise the mandatory retirement age are the long-term prospects of the public pension greatly improved as it's predicted to lower the contribution rate and improve the net replacement rate (Bonin, 2009).

The sustainability factor incorporates demography and employment, as well as the number of contributors and pensioners. The relative number of pensioners to contributors, dependency ratio, is the most important long-term determinant of pension financing (Börsch-Supan, 2003). The dependency ratio is a ratio of people who are not in the labour force (population under 15 years old and people aged 65 and over) to the workforce of a country (population between 15 and 64 years old). This ratio shows the pressure on productive population and its current value as of 2015 was 53.9% comparing to its peak of 77.1% in 1967 (The World Bank). This value means, that more than a half of German population is dependent on the working part.

As of 2014, the number of pension recipients was 23.4 million and this number remains stable over the past ten years. Total expenditure on social security pensions as % of GDP in 2060 is predicted to be 13.4% of GDP in comparison with 10.8% in 2010. (European Commission, 2012).

Dependency ratio is closely associated with the concept of potential support ratio, which expresses the number of people aged 15-64 per people aged 65 or older. Support ratio of value 3,00 simply says, that there are three people able to work attributable to 1 elderly person.

$$\text{Support ratio} = \frac{\text{population between 15 – 64 y. o.}}{\text{population aged 65 and over}}$$

$$\text{Support ratio (Germany – 2016)} = \frac{52\,799\,962}{17\,564\,983} = 3,00$$

According to Börsch-Supan and Wilke (2007) under status quo conditions, production per worker needs to increase by the 18.5% until 2035, to compensate the pure loss in the number of workers. This requires an additional productivity gain of around 0,7% per year which is out of reach in a high-productivity country like Germany.

German pension system took a sequence of reforms aimed at achieving long-term sustainability of its economy. The latest reforms have moved pension provision in principle from a defined benefit to a defined contribution scheme, and this move has stabilized pension finances to a large extent. Yet the timing and the exact quantity of these effects will depend on how individual labour force or retirement behaviour will respond to the reform (Bonin, 2009).

3.3.1 Minimizing the dependency ratio

As the demographic changes are shaping the future of Germany, the country shall minimize the effects on its current and future population by minimizing the dependency ratio. Although it is not probable, that the workforce in Germany will grow in the coming decades, a country can maintain the potential support ratio through some channels:

- **Minimizing dependency ratio through migration**

In the working paper of United Nations (2001) authors examine, if migration of a country can be used to prevent a decline or ageing of the population. This is being referred to as a *replacement migration*. The UN came up with the 6 Scenarios and the results are following:

Net migration in the years 1990-1992 was close to 680,000 migrants per year. That number decreased in 1993-1998 to about 270,000 per year. The net number of migrants needed to keep the total population constant is 324,000 per year and the net number of migrants needed to keep the age group in a range of 15-64 years old constant is 458,000 per year. These

numbers are within the range of the experience of the past decade. However, to maintain the potential support ratio at the date of the UN research of the value 4.4 would require an influx of 3.4 million migrants per year which is more than ten times the yearly amount.⁵

Schmertmann (2012) raises the question of how age-targeted immigration policy can be used to increase the relative number of working people. The total number of immigrants annually is fixed and the issue is reduced to a static optimization issue. He finds out, that the highest relative number of workers can be achieved if all immigrants arrive at one single age under the assumption that at each age an arbitrarily high number of immigrants can be recruited. However, Schmertmann does not specify what the optimal age-specific immigration profile would look like if not all immigrants are admitted at one single age

- **Minimizing dependency ratio through rising mandatory retirement age**

If Germany would want to maintain the potential support ratio of 3.00 by 2050 in the absence of migration, it would be necessary to raise the upper limit of the working age to 72.4 years. Considering, that the reform of raising the retirement age already happened in 2007 but it is raising only by one month per year, the process of maintaining the same ratio will be slowed down. However, increasing the activity rate of the population would help only partially due ageing. The same study of UN proves, that if the activity rate of all the population between 25 – 64 years would increase to 100% by 2050, it would make up for only 24% of the loss in the active support ratio resulting from the ageing population (United Nations, 2010).

- **Minimizing dependency ration through the surge in employment among women**

While in many countries it is common for women to work full time and at the same time raise a family, there is only a small share of German women trying to climb up the corporate ladder. Even young women, who make up a larger part of German students, hold a belief, that woman should not try to manage both and is even not expected to. If a woman in Germany chooses to start a family, she often stays at home for a couple of years, which has obvious consequences for her career path. Women, instead of building their careers, prefer to work in the part-time jobs and at the same time taking care of their homes and families.

⁵ As this research is already outdated and the current potential support ratio declined to 3,00%, we suggest, that this influx would have to be of a much larger extent.

German women and their tradition are, however, not the only one to blame. Its unfortunate side-effect of preventing women from pursuing their careers has the German social law and its generous financial support. Another fact, supporting women at their decision to stay home is the widening wage gap between men and women, which is the third biggest gender salary gap in the EU (Graff & Schaupp, 2009). One of the key to raise the workforce is a boost of the female labour force participation rate. For example, if it was possible to raise it to 90% of the male rate, the work force would increase by almost 9% compared with a status quo scenario (Benin, 2009).

- **Education as a key factor of boosting the working age**

Many European governments have already cut their pension promises and linked the retirement age to life expectancy in a hope of sustainability of its workforce. But an even more important factor is education, as a better educated older population is more likely to work longer. As the relative pay of the less skilled population fell, retirement, on a public pension is more attractive and for the unemployed, who are likely to be less skilled is retirement not a prospective option (The Economist, 2014).

As higher skilled workers tend to be paid more, they have incentives to keep working. Because Germany is a highly industrialized economy, demand for skilled labour in Germany will remain high and that there will continue to be very good opportunities for skilled workers from abroad and immigrants as they are becoming more educated than their ancestors once used to be.

- **Minimizing dependency ratio through the productivity growth**

An important factor which cannot be ignored is the labour productivity. Economic growth is determined by increases in labour volume and its productivity. When both factors are growing fixedly, an economy is on a stable growth path. That is, however, not the case of Germany. If the labour volume shrinks, productivity needs to grow in order to stay balanced. In other words, if a workforce shrinks and the productivity surges, a workforce does not need to grow. Although the German productivity was increasing continuously until the global financial crisis 2008, its development is currently rather steady and stagnating (Trading Economics).

Although studies and experiences show, that most physical and cognitive capacities decline with age, we come back to the education. Better education leads to higher productivity at any age and a growing group of the highly educated population could increase productivity offsetting much of the effect of a smaller workforce (The Economist, 2014).

3.4 Migration to Europe

Ethno-racial and religious changes in Europe are visible because of contemporary immigration. While many European countries have long-standing minority populations, immigration during the last decades has transformed patterns of diversity and for example Europe has become more diverse than the U.S. We also see new forms of gender-based discrimination as Muslim immigrants often face gender stereotypes, when men are perceived as perpetrators and security threats, while women as oppressed and powerless victims. The diversity is also reflected in the legal status of migrants as some arrive because of their skills or through family ties, while others as refugees and asylum seekers, who seek safety from war (Orrenius, 2014).

Undocumented immigrants earn lower wages than comparable workers with legal status or natives and they also have the disadvantage of the slow acquisition of language skills and reduced female labour participation. The lack of legal status also delays the socioeconomic incorporation of immigrants and integration of their descendants. Employment is the single most important determinant of migrants' net fiscal contribution, particularly in countries with generous welfare states, as Germany (OECD, 2014). Most immigrants do not come for social benefits, but to find work and to improve their lives and lives of their families.

Although no nation has a larger population of unauthorized immigrants than the US, where it accounts for about 12 million, inflows to Europe are increasing. Member States of the EU have therefore turned to regularization programs in the recent years to address this rising numbers of immigrants within their borders. „*Regularization is the procedure, by which eligible unauthorized residents may be granted either temporary or permanent legal status in Europe* “(Kerwin et al., 2012). Opponents of regularization view the proposed measures as an enticement to further illegal migration, whereas supporters believe, that a certain number of long-term immigrants can benefit the country's economy and integration.

The Member States of the European Union have also adopted the use of large-scale or focused regularization policies, which goal is to bring unauthorized immigrants into the society.

However, member states often oppose, that the programs of one country could negatively impact other countries. The different policies in regularization are divisive amongst Europe as implemented programs in the north tend to be narrower, whereas those of southern states are broader.

Fifty years ago, the dominant theory about immigrant integration was straight-line assimilation, which presumed a uniform process of acculturation. Today, researchers are pointing to the new ways, in which immigrants are changing the host society in significant ways beyond food, language, and cultural styles. Scholars have also recognized the heterogeneity of contemporary migrants: not only do immigrants assimilate into different segments of the host society, but also at different speeds.

3.4.1 Statistical analysis of the German population with a migration background

As the population with migration background makes up to 22% of the total population of Germany, it is important to look at these two groups separately by comparing selected statistical facts. By examining this information, we can find out, if the group with migration background are doing comparably as good as the original German citizens. Persons with a migrant background comprise all foreigners, Germans who immigrated themselves after 1955 and Germans with at least one parent who immigrated to Germany after 1955 (Destatis).

More than half of the people with a migrant background are Germans, the rest are foreigners. The population with a migrant background is much younger (35 years on average) than the population without a migrant background (45 years on average). This difference is due to the persons with a migrant background who were born in Germany: their average age is 19 years, while those who came to Germany from abroad are an average 45 years old (as the people without a migrant background) (Zensus 2011).

The way of living

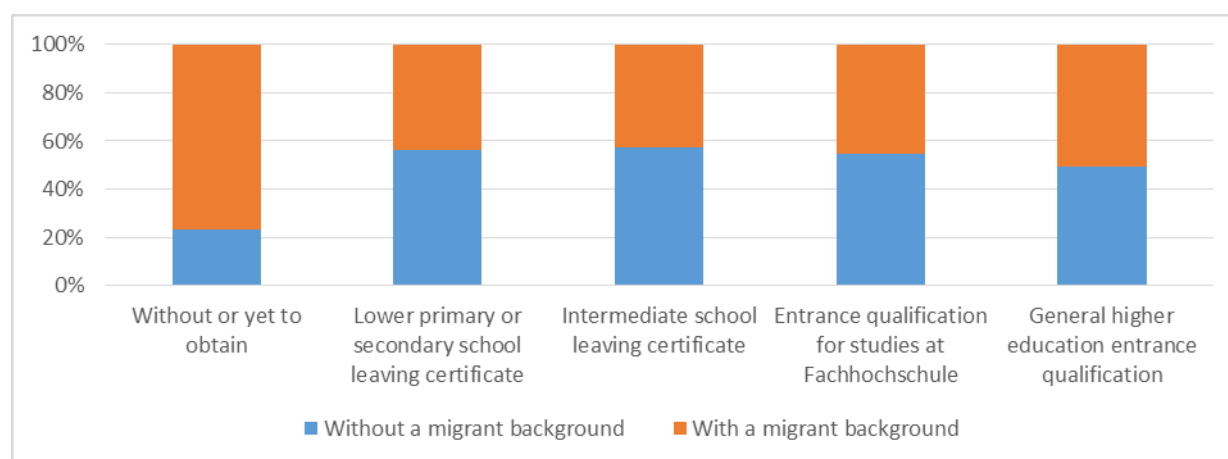
Almost all migrants (96.7%) live in the west of Germany and in Berlin and only 3.3% in the east; 43.4% of the migrants live in large cities with at least 100,000 inhabitants and 14.4% in municipalities with fewer than 10,000 inhabitants. The average household size of those with a migrant background is 3.4 people while people without a migrant background live in

households with an average 2.7 members. Migrants mostly live in four-person households (24.1%) and persons without a migrant background in two-person households (34.1%).

Education

The education status of immigrants varies considerably but it can be concluded, that young immigrants are generally more educated than those nearing retirement. Since 2000 – 2014, immigrants have represented 14% of the increase in the highly educated labour force in Europe. There is a marked difference between migrants and people without a migrant background when it comes to school education: 15.5% of the population with a migrant background who are at least 15 years of age have not completed school education, the corresponding share is 2.3% of the population without a migrant background.

Figure 18 Comparison of the highest school-leaving qualification



Source: Own processing according Zensus 2011

Figure 18 shows that there are slight differences between the population with and without a migrant background in Germany. The most visible differences are in the obtained qualification, where the majority of those, who did not receive any qualification is with a migrant background.

„It’s not a matter of white or brown. People from Islamic cultures are below average [in educational terms] and so become a burden on the rest of the country,” says Thilo Sarrazin, a former director of Germany’s central bank who has emerged as the country’s most outspoken immigration policy critic. *„This educational failure is crucial.”* (Wagstyl, 2014).

Comparable education of immigrants with natives ensures them the equal rights and can help them to overcome the ethnic differences and lead a better life. According to Diaby, the first

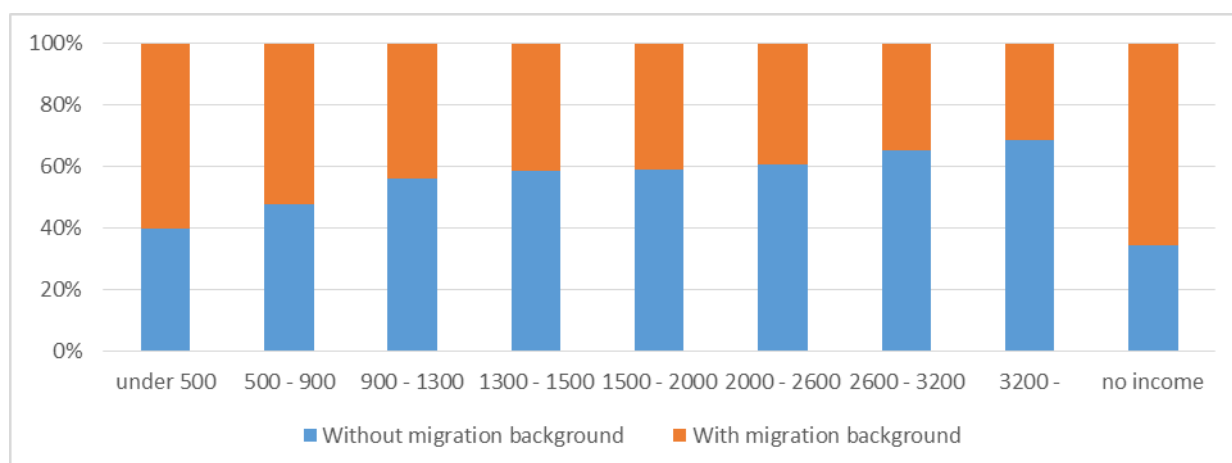
African-born Member of Parliament in the Bundestag, children with a migration background do worse at school because the German educational system reinforces social inequality.

Note: The latter figures are showing the relative numbers and no absolute values. That means that population with *No Graduation* expresses that there are only 30% of people without migration background relatively to 70% of them who did not graduate. This is shown relatively to the size of each group, as a population with a migration background represents 21% of a German population.

Income

The field income is highly dependent on the education and the skills, meaning that if the population with a migration background is in general less educated, it is obvious that they are also receiving a smaller income.

Figure 19 Comparison of the income



Source: Own processing according Zensus 2011

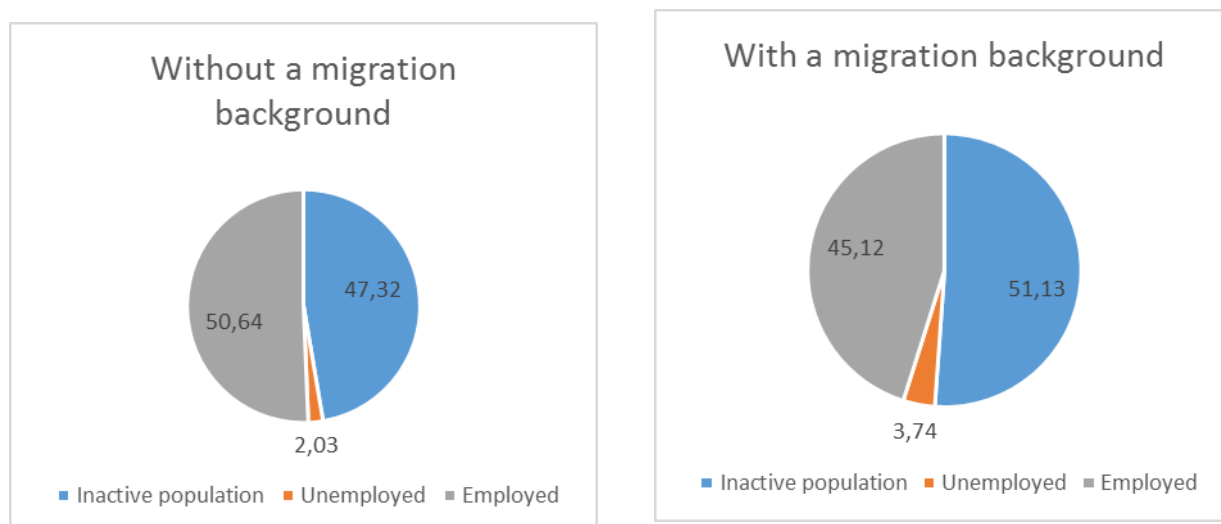
As the Figure 19 shows, the proportion of the population with migration background is with the increasing income slowly declining. The biggest difference can be observed in the field *no income*, where there is almost 30% of people with migration background in comparison with only 15% without. According to this Figure we can conclude, that the height of income is developing to the detriment of the population with migration background.

According to the EU's statistics agency, foreign-born people in Germany earned a median income of 81% of the native population's in 2011, compared to other two European immigrant countries France (82%) and the UK (87%). Thanks to the strong economy and generous social-security system, Germany has only 28% of foreign-born people living below the poverty line which less than in Britain (31%) and France (36%) (Eurostat).

Employment

Employment is the most important determinant of migrants 'net fiscal contribution and thus raising their employment rate would entail fiscal gains in many European countries.

Figure 20 Comparison of Employment



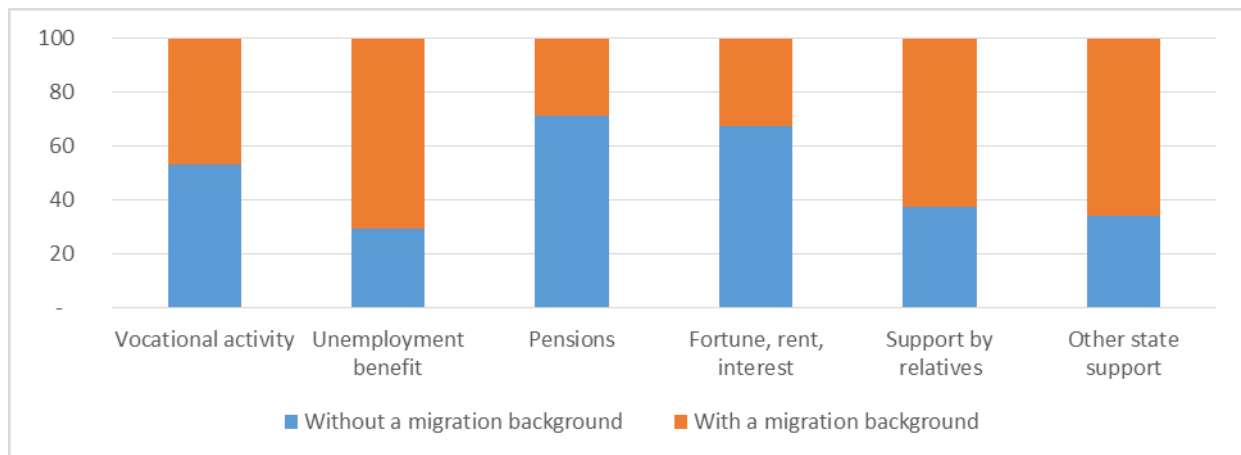
Source: Own processing according to Zensus 2011

The Figure 20 shows that the structure of employment does not differ significantly and is rather similar. There is only a slight difference which goes to the detriment of a group with a migration background, as there is more unemployed and more non-active population. IMF study found, that only 42% of highly skilled immigrants have a job which requires higher education compared to around 70% of natives, but this participation rate should fully converge after 20 years. The study also shows, that the wages of immigrants, which are 20% lower, will never fully converge, although they are rising (IMF, 2014).

Livelihood

A livelihood comprises the capabilities, assets, and activities, which are required for a means of living. It describes the strategies to ensure one's survival (The World Bank, 2011). The way by which population groups are making a living is an important indicator as it can be said, whether the population with a migration background was assimilated enough.

Figure 21 Population according to migration background and predominant livelihood



Source: Own processing according Zensus 2011

Figure 21 is to the detriment of the population with a migration background, as it shows that the higher share of them is taking the unemployment benefit or other state support, as well as the support of the relatives. Population without a migration background, on the other side, is slightly more vocational active and relatively bigger share receives pensions and earns by fortune, rent or interest. Immigrants in most European countries rely more on social security and unemployment benefits relative to natives than in other migration countries such as US or Canada (Kerr, 2011).

3.4.2 Assimilation of Turkish immigrants

As we already suggested in the first chapter, assimilation of Turkish immigrants does not belong to the successes of Germany. Even after more than fifty years, they were not able to fully integrate into the German society. Even those, who were born in Germany do not find themselves to be German and are very proud of their Turkish roots. Despite their great knowledge of German, most of the ethnic Turks prefer to live in the ghettos with prevailing Turkish population. Turkish immigrants and their descendants make up the largest minority in Germany and there is around 2.851 million of them with the migration background.

Gatestone institute made a survey (Kern, 2016) on the Turks living in Germany and some of the answers are rather surprising:

- ❖ Migration is no longer the main reason why Turks immigrate to Germany: it is to marry someone, who lives there;

- ❖ 7% of respondents, which amounts to around 200 thousand Turks agreed, that „violence is justified to spread Islam “;
- ❖ Ethnic Turks are economically and educationally less successful than other immigrant groups and more than one-third of them live below the poverty line;
- ❖ Nearly half of the German Turks believe, that it's more important to follow the law of their region than German law if the two are in conflict.

The opinions about the integration of Turks in Germany may differ from the German authorities, who believe that they are well-integrated, to the ordinary German Turks, who do not feel accepted as a member of German society. The results of survey show, that Turkish migrants are poorly integrated, and according to the study *Deutsch-Türkische Lebens und Wertwelten* (Kern, 2012), only 15% of them consider Germany to be their home.

Other key's finding of this study are as following:

- ❖ Nearly half of respondents hoped, that there will be more Muslims than Christians living in Germany, and more than half said that there should be more mosques built;
- ❖ 95% of respondents find it necessary to preserve their Turkish identity and 87% believe, that Germans should make a greater effort to considerate their traditions and customs;
- ❖ 62% said, that they would rather be around Turks than Germans and only 39% find Germans trustworthy.

According to report made by Destatis, only 5% ethnic Turks earn more than 150% of the average income in Germany, compared to 21% of migrants from Eastern Europe, and more than a third earns less than 60% of the average income. Only 60% of ethnic Turks complete secondary school (Hauptschulabschluss), compared to 85% of migrants from Eastern Europe. Moreover, only 8% of ethnic Turks between the ages of 17 and 45 earn a Bachelor's degree, compared to 30% of migrants from Eastern Europe (Destatis: Datenreport 2016).

The results also show, that around a third of ethnic Turks is not content, which is the highest number of all migrants. German economist Thomas Straubhaar argues, that Turks are still viewed as guests by German citizens and this attitude discourages them from integrating even more. Their immigration is still understood as temporary, and their contribution to German culture is either viewed critically or is it rejected.

"Guests will not be willing to put all their cards on the table of the host country and take full responsibility for successful integration. Guests assume that sooner or later they must return

home again. In everything they do, they will always consider their guest status and be only half-heartedly engaged. This applies to investments in language, culture, friendships, social contacts and professional career."(Straubhaar, 2016).

Here the vicious circle arises, when Germans counter, that the one who acts like a stranger should not be surprised if he is treated as a stranger. That is the message, German population delivers to those of Turkish origin. For those reasons, there doesn't seem to be a successful way to the integration of Turks into German society, unless both groups will treat each other as equals.

4 Europe's refugee crisis

People move across countries for many reasons, although the most highlighted are considered to be the wage differences across countries, many migration cases are also the result of hardships or oppressions. This was also the case of triggering the Europe's refugee crisis. Those people, who left behind their countries and families in order to find a new home included not only asylum seekers to apply for a status of refugee, but also those seeking for a better life, being referred as economic migrants.

Most of the foreign migrants came from the Muslim-majority countries and according to the United Nations High Commissioner for Refugees (2016), the top three nationalities were Syrian (46.7%), Afghan (20.9%) and Iraqi (9.4%). Many of those migrants were individual males. All of a mentioned country are currently either in conflict or in crisis.

Table 5 The key figures of the top three fleeing nationalities (since the outbreak in 2015)

Country	In need of humanitarian assistance	Fled the country	Internally displaced by violence	Targeted by humanitarian assistance
Syria	13.5 million	5 million	6.3 million	13.5 million
Afghanistan	9.3 million	498 thousand	215 thousand ⁶	-
Iraq	11.0 million	4 million	3 million	5.8 million

Source: Own processing according UNOCHA, as of March 2017

⁶ Returned from Pakistan

„Most people arriving this year in Italy and Greece especially have been from countries mired in war or which otherwise are 'refugee-producing' and for whom international protection is needed. However, a smaller proportion is from elsewhere, and for many of these individuals, the term 'migrant' would be correct. “(UNHCR, 2016).

The migration agenda in Europe is dominated by the continued flow of boat migrants across the Mediterranean and the subsequent large number of migrant deaths. Most member states have reacted accordingly by tightening controls on irregular access to their territories. Increasing unauthorized immigration has therefore resulted in more border enforcement, which contributed to even more deaths and we can conclude that these increased therefore restrictions have not been effective.

A fair proportion of the migrants would qualify for asylum in Europe, but many others would not, regardless of the horrors that they may have endured. And while European countries have committed to protecting migrants who have a well-founded fear of persecution, they seek to limit immigration by making it as difficult as possible for people in need to avail themselves of such protection, that is, to reach European borders and apply for asylum (Orrenius, 2014).

Despite some of the high-skilled inflows, the majority of recent immigrants to Europe had a lower level of education than natives. Immigrants are found to experience lower employment and wages than natives at entry. Even though these differences are likely to diminish over the duration of a migrant's stay, recent cohorts are expected to experience permanently weaker labour market success (Kerr, 2011).

4.1 Europe's response

Europe's response towards refugee crisis was a failure of the international community and it has left hundreds of thousands of refugees and other migrants increasingly vulnerable. It has lacked the adequacy to address conflicts, violence, and human rights violations in countries of migrants' origin. The response of European Union was a defeat as it was not able to take collective action to share responsibility equitably for asylum seekers or to create safe and legal channels to Europe (HRW, 2015).

To obtain a coherent approach from all 28 EU Member States proved to be extraordinarily difficult and the crisis has compounded political and economic division within Europe. For example, Visegrad Group countries – Poland, Slovakia, the Czech Republic and Hungary have rejected accepting the so-called immigrant quotas which were being imposed by EU on

member states. As the opinion of the Visegrad Group is in a sharp contradiction with the German one, the political tensions across central Europe are rising and a gulf between East and West on a migration crisis is deepening (The Economist, 2016).

„The countries of the Visegrad Group still maintain that the mandatory system of redistribution of asylum seekers could be a factor in attracting migrants [to the EU], and will contribute to increased divisions among member states and their societies, “says the declaration adopted at the conclusion of a Visegrad Group summit in Prague, 2016 (Radio Poland, 2016).

Focusing just on applications from citizens of non-member countries, there was a gradual increase in the number of asylum applications within the EU-27 and later the EU-28 as following: 431 thousand applications in 2013, 627 thousand in 2014, 1.26 million in 2015 and 1.2 million in 2016. Of the first-time asylum seekers in the EU-28, 83 % was less than 35 years old and three-quarters of them were males (Eurostat).

In 2016, there were 1.1 million first instance decisions in all EU Member States, almost double the number in 2015 (593 thousand) and by far the largest number of decisions was taken in Germany. In 2016, 61 % of EU-28 first-instance asylum decisions resulted in positive outcomes, which grants refugee or subsidiary protection status, or an authorisation to stay for humanitarian reasons. A total of 366 thousand persons were granted refugee status in the EU-28 in 2016 at first instance, 258 thousand were given subsidiary protection status, and 48 thousand were given authorisation to stay for humanitarian reasons (Eurostat, 2016).

Table 6 Number of asylum seekers per country (2016)

Liechtenstein	80	Czech Rep.	1475	Finland	5605	Sweden	28790
Slovakia	145	Romania	1880	Denmark	6180	Hungary	29430
Estonia	175	Malta	1930	Poland	12305	UK	38785
Latvia	350	Luxembourg	2160	Spain	15755	Austria	41950
Lithuania	425	Croatia	2225	Belgium	18280	Greece	51110
Island	1125	Ireland	2245	Bulgaria	19420	France	83485
Slovenia	1310	Cyprus	2940	Netherlands	20945	Italy	122960
Portugal	1460	Norway	3485	Switzerland	27140	Germany	745155

Source: Destatis

The 28 Member States of the European Union (EU) granted protection status to 333 350 asylum seekers in 2015, an increase of 72% compared with 2014. In 2016, it was already

672,585. Since 2008, a total of nearly 1.1 million asylum seekers has been granted protection status in the EU. The largest group were citizens of Syria, Eritrea, and Iraq (Eurostat, 2016).

Public opinion in Europe on international migration is highly divided which as well has its effect both on government policies and integration prospects for refugees and other migrants. On one hand, we have the images of the media showing the terrible risks refugees are taking just to get to Europe, and on the other one, anti-immigration policies of the right-wing political parties, whose extremist offshoots are on the rise throughout the whole Europe.

European Council President Donald Tusk has tackled the issue from the different perspective and warned economic migrants not to come to Europe. „*Do not risk your lives to come to Europe*“, he says adding, „*Do not believe the smugglers. Do not risk your lives and your money. It is all for nothing.*“ He also said that EU members must avoid taking unilateral action to deal with the migrant crisis (BBC, 2016).

Another important issue is Turkey, which already accommodates over 2.5 million Syrian refugees at an estimated cost of 7 billion euro. The EU has contributed 3 billion euro to Turkey, but it is calling for more support. Turkey has offered to sign readmission agreements which could enable it to take back migrants rejected by the EU more efficiently. Turkish officials say, that they have prevented almost 25 thousand migrants from travelling to Europe last year but at the same time another almost 130 thousand have made their way to Europe through the Greek islands at the same time and Brussels insist on Turkey to do more to reduce the numbers of migrants. Turkey is expressing frustration at the lack of a common position from the EU on the crisis (BBC, 2016).

Legal framework of the UN

EU member states have made long-term legal commitments under international human rights and refugee law, most recently reaffirmed by member states in UN General Assembly Resolution 69/167 of December 2014, to protect and promote the human rights of all migrants, irrespective of their status. As signatories to the 1951 Convention relating to the Status of Refugees and its 1967 Protocol, these states have specific responsibilities to provide international protection for people fleeing ‘persecution or serious harm’. The Convention obliges states to grant refugees’ rights to work, education, housing and the judicial system and protects them from punishment for entering a country illegally. Migrants who do not fall within the definition outlined in the Convention are protected under the broader international human rights framework (UNHCR, 1951).

Migrant: *“an individual who has resided in a foreign country for more than one year irrespective of the causes, voluntary or involuntary, and the means, regular or irregular, used to migrate “. (IOM, 2011). This definition encompasses refugees, asylum-seekers, and economic migrants.*

Refugee: *„an individual who owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country “. (IOM, 2011)*

Asylum-seeker: *„a person who seeks safety from persecution or serious harm in a country other than his or her own and awaits a decision on the application for refugee status under relevant international and national instruments “. (IOM, 2011)*

Economic migrant: *„a person who leaves their home country to live in another country with better working or living conditions “(Cambridge Dictionary).*

The current EU asylum system attempts to harmonize the rules and conditions that apply to asylum seekers across all EU member states. The core issue – the number admitted – is a national decision and there are stark differences among member states in the regulation and level of compliance with EU Directives on asylum. Although the European Commission has put forward a number of proposals to enhance joint migration and asylum policies at the EU level in recent months, progress has been slow.

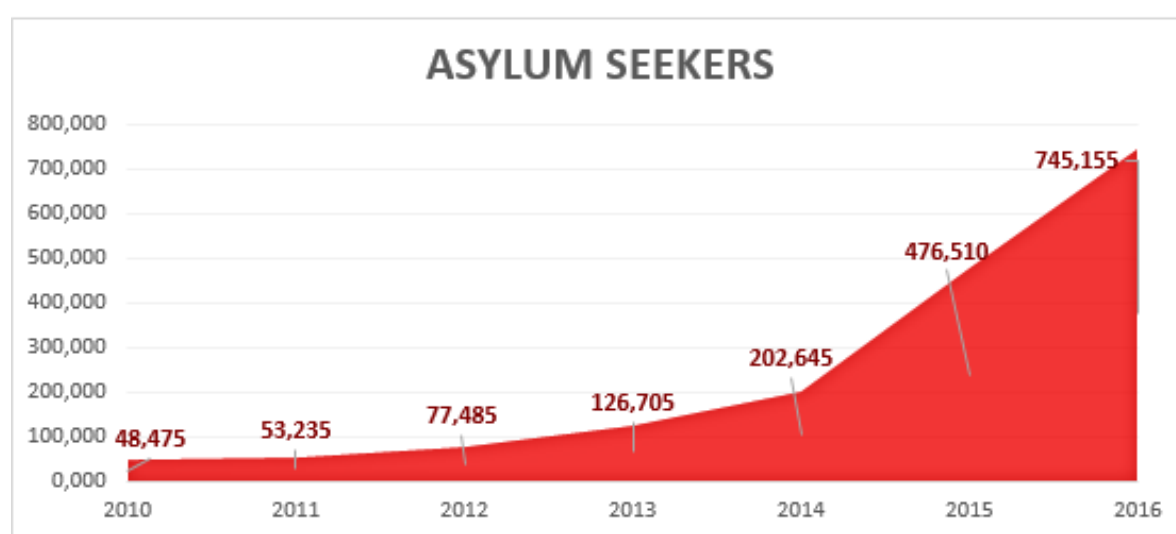
There is a substantial financial cost to countries receiving influxes of refugees of a large-scale and others granted international protection in terms of integration support (e.g. housing, health, education and other welfare services). For Italy, Greece, Croatia, and Hungary – the EU countries on the frontline – the volume and speed of the influx has simply overwhelmed their asylum systems at a time when their economies are particularly weak.

For how much Europe has already done for the refugee crisis, there is no international political framework for ending the Syria conflict and no clear international strategy for addressing the related conflict in Iraq. Afghanistan is still far from any real stability despite years of international intervention, and the international community seems to be out of ideas on how to end the decades-long conflict in Somalia. Efforts to address the chronic poverty, inequality, weak governance and climate and environmental changes that constitute ‘push’ factors in many developing countries have also been inadequate (Metcalf-Hough, 2015).

4.2 Asylum seekers in Germany

In 2015, a total of 160,000 migrants were proposed for the EU Member States as a Support to Emergency Relocation Mechanism. Germany formally pledged the highest share of migrants from all the EU countries, specifically 7,250 and in addition, it relocated 1,481 from Italy and 2,030 from Greece. The EU Member States together with Norway, Liechtenstein and Switzerland have formally pledged 27,393 migrants out of initial 160,000 (Eurostat, 2017).

Figure 22 Increase of the development of asylum applications (2008 – 2016)



Source: Own processing according Destatis

Figure 22 shows the jump between 2014 - 2015 in the increase of refugees who applied for asylum in Germany. The number of first-time asylum applicants in Germany increased from 442 thousand in 2015 to 722 thousand in 2016 (Eurostat). A first-time applicant for international protection is a person who lodged an application for asylum for the first time in each EU Member State and therefore excludes repeat applicants. Considering several applications throughout the Europe, in 2015 Germany made up for almost 38% of them, and even 62% in 2016 (own calculations). The other most accountable countries referring to many applications were Hungary and Sweden.

The Table 7 shows that most of the asylum seekers throughout the years 2010 – 2016 were granted a decision by the respective authority and they are in the stage of the procedure. In 2015, positive decisions on asylum applications in Germany were 148,215 while in 2016 it was 433,905. Depending on the outcome of the decisions, asylum applicants can be categorized in different groups: rejected applicants; the person being a subject of a pending

application; the person granted refugee status; person the granted subsidiary protection status and person granted authorisation to stay for humanitarian reasons (Eurostat).

Table 7 Decisions on applications and resettlement

Year	Asylum applications withdrawn	First instance decisions on applications	Final decisions on applications	Positive decisions	Refused
2010	3,070	45,300	7,775	10,445	34,855
2011	3,000	40,280	24,565	9,675	30,605
2012	3,055	58,605	29,445	17,135	41,470
2013	4,750	76,165	36,660	20,125	56,040
2014	8,190	97,275	44,335	40,560	56,715
2015	14,530	249,280	93,840	140,910	108,370
2016	45,245	631,085	123,700	433,905	197,180

Source: Own processing according Eurostat

4.2.1 Germany's attitude towards influx of refugees

In 1982, a conservative former labour minister Norbert Blüm declared: *"The most important basic point is that Germany is not a land of immigration. We have reached the limits of our capacity to accept and integrate people."* (Wagstyl, 2014). Although Blüm stayed in office for another 16 years, he was unable to prevent Germany becoming – de facto – a land of immigration. The latter attitude of Germany changed considerably and immigrants are welcomed to boost the workforce of the country.

"We will profit from this, too, because we need immigration," German Labor Minister Andrea Nahles said. *"The people who come to us as refugees should be welcomed as neighbours and colleagues."* (Grodén, 2015). So was the opinion of the most politicians, Angela Merkel including. When refugee crisis in 2015 broke out and refugees started to arrive in Germany, many politicians and economists saw them as a solution to a future's labour shortage. Germany saw itself in the role of a saviour and it believed, that by being humanitarian it could partially rectify its reputation destroyed for committing horrible crimes in the World Wars. In generally there were not many Germans who did not welcome refugees in their country.

When Germany opened its borders at late 2015, Angela Merkel declared that there are no limits to the number of refugees Germany can accept. Germany suspended Dublin conventions when it did not undertake obligatory examination testing whether asylum seekers first entered the EU in another member state and whether they should be returned to that country. Germany was the only EU state that doesn't send Syrian refugees back to their first

point of contact (Dernbach, 2015). This changed in October 2015, when Germany as once again started to send Syrian refugees back, in line with the Dublin regulations. This decision is highly criticized by Greece and Italy, through which borders passes the most refugees (The Local, 2015).

Germany became very politically divisive and although most of the Germans are being rather hospitable, crisis boosted some radical right-wing parties throughout the Europe, such as „Alternative für Deutschland “(AfD) party, who are strictly anti-immigrant. The party’s series of successes in the last year elections has been put down to public anger and fear over Merkel’s welcoming policy toward refugees. The party mostly wants the immediate deportation of anyone whose application for political asylum has been rejected and is even able to encourage these refugees financially to return to their home countries. The party believes, that those few migrants who can stay should fully integrate into German society and emphasize the importance of the German language and its culture (Deutsche Welle, 2017).

By the end of 2015, when the inflows of refugees were increasing tremendously, Germany realized, that its rash over welcoming so many refugees is not sustainable and that it needs to be realistic. *„We must still do all that we can to ensure that the number of immigrants coming into Germany falls again. Because in the long term, we will not be able to take in and integrate more than a million refugees every year, “*said Sigmar Gabriel, German Vice Chancellor (Gabriel, 2015).

Since Germany’s policy on migrants became unsustainable and it was out of the German capacities to accept such an influx of migrants, Merkel faced sharp criticism and the question about the country’s future was raised. The situation escalated as Germany experienced an increase in violence not only from the media well-known cases of refugees but also on them as the consequence of the radicalism.

In September 2016, when Merkel’s CDU party suffered the worst results in state elections since WWII losing support to AfD, Chancellor admitted, that she lost control over Germany’s refugee crisis and made mistakes over the past 18 months. *“For some time, we didn’t have enough control,”* Merkel said. *“No one wants to repeat of last year’s situation, including me.”* (Petzinger, 2016).

The Report of the Federal Ministry of Finance stated, that Germany has spent 21.7 billion euro for 2016 for asylum-related expenditures and it estimates another 21.3 billion euro in 2017. It also pointed out, that there are many improvements for those seeking protection: the

number of ongoing asylum procedures has been reduced by one-fourth from the peak, all those seeking protection have been registered, newly arriving refugees have been able to submit their application immediately, and integration courses can already be visited during the asylum procedure (Federal Ministry of Finance, 2017).

4.2.2 Refugees' current situation

Integration into the job market has become a major task for the German government, and it has proved not to be an easy one. According to the statistics of the Institute for Labour Research (IAB), only some tens of thousands could find a job and about half million is registered with employment agencies or job canterers. Although many migrants have expressed a desire to work, some of them are refusing to work claiming, that they are „*guests of Chancellor Angela Merkel who invited them to Germany* “. (Tomlinson, 2016).

The German industry needs a highly qualified workforce and of the 663 thousand of available jobs in the middle of 2016, there were around one sixth of them that did not require high skills and experiences. However, so far only dozens of migrants have got one of these jobs. Corporations argue, that even if migrants have the skills for professions, they lack basic German language skills, which is the biggest obstacle to overcome so far.

Institute for Employment Research (IAB) - a part of the government's Federal Employment Agency (BA) found, that around 50,000 refugees found work in Germany between September 2015 and September 2016, and some 30,000 earn enough to make them subject to social insurance contributions. Most of the jobs are in logistics, warehousing, and agriculture (Deutsche Welle, 2016).

The Kiel-based Institute for World Economics estimates, that only 2% of recent migrants in Germany are employable (Hale, 2016). Professor Wössmann's research, who is director of the Centre for the Economics of Education in Munich, showed that two-thirds of migrants can't read or write (Wiarda, 2015). Although some part of the migrants is educated and achieved a University degree, their educational system is not equal to the German one and therefore not applicable.

To bring more migrants to work, Angela Merkel's party CDU has proposed that companies can go below the minimum wage of 8.50 euros during the first six months. This initiative led to the one-euro job scheme which should help integrate refugees on the labour market. Labour

Minister Andrea Nahles promised to create 100 thousand such a job for refugees but by the end of 2016, only around 5 thousand of refugees were employed in these jobs. In these „mini jobs „refugees are paid around one euro on top of existing benefits they have (Deutsche Welle, 2016). The migrants showed a little enthusiasm for the program and it is believed, that Germany needs a far more ambitious program to integrate the refugees into the economy.

4.3 Integration of the new immigrants

According to Aydan Özoğuz, Commissioner of the Federal Government for Migration, Refugees, and Integration, integration means living together in Germany with people from different backgrounds without any fear (Wagstyl, 2014). The question, however, remains, how can Germany achieve a higher degree of integration comparing to the relatively unsuccessful story of ethnic Turks? Immigrants face various obstacles to employment, including issues with the recognition of their educational degrees, lack of language skills, poor professional connections or networks and regulations that prevent them from working legally (Kerr, 2011).

Language barriers

One of the most natural presumptions of successful integration is a language. The German language is not only difficult but it is spoken almost only in central Europe unlike with English or French, and as there are no former colonial territories to supply the speakers, everyone has to start from scratch. Federal Office for Migration and Refugees offers plenty of various courses for a better integration of asylum applicants distinguished according to the age, abilities, and purposes. According to Ayman Mazyek, the head of the Central Council of Muslims in Germany, „*teaching thousands of arrivals whose native language is Arabic to speak fluent German will be impossible.* “ (Stoldt, 2015).

Education and level of skills

As Germany is a highly industrialized economy, it also needs a high-skilled labour force. Education is a key determinant of labour market performance and refugees who bring the skills have better chances to find a job and integrate successfully. Those, who do not have sufficient education levels need to catch up by going back to school or participating in the bridge programs. The aim of the bridge program is to fill the gaps between the requirement's skill and the actual skill of a migrant.

Despite the high-skilled inflows, the majority of the European refugees had a significantly lower level of education than natives. Evidence suggest, that assimilation is faster with greater education. However, Germany is currently struggling to hire so many new teachers to provide an education to the immigrant influx. The biggest problem is again the language barrier, as it might be difficult to raise the educational level of migrants in another language than German. The prospects of children are; however, much better and young refugees were given access to the education system.

Working conditions

The fact, if the migrant will be hired also depends on the employer's openness and without the businesses willing to employ asylum seekers, labour market integration will not be probable. German entrepreneurs have together launched an initiative for a better integration of the refugees on the working places called „*Wir zusammen*“, whose motto is „*Together we can create long-term perspectives and opportunities for refugees*“. In the program, there is already 183 corporations and the number of them is rising (Wir zusammen).

According to Wößmann (2016), for refugees to be integrated into the society and labour market, Germany needs to equate refugees with long-term unemployed. Germany also needs more one-year qualifications with the possibility to expand them into a full-time education. Asylum seekers generally have access to vocational training but the fact, that their residence permits are issued for a 6-month-period makes it difficult to enter them.

Children and youth

According to statistics, nearly 30% of asylum seekers are under 16 years old which is a positive fact because immigrants' children have better chance to be integrated successfully. Children and youth learn the language more quickly when they have a daily language exchange with children without a migration background. This means that all children should go to the day-care centre at the latest when they are three years old and the primary school children from the beginning into the regular classes. Ghettoization needs to be avoided of and children of asylum seekers should be distributed to the municipalities evenly so they can feel equal to the other and learn quicker (Wiarda, 2015).

Nationality as a key to success

According to the German economist Thomas Straubhaar (2016), the citizenship has a fundamental importance for people with a migration background. Whoever is equated with all

rights and duties to all others does more for a good success of the integration. Straubhaar compared the integration of German emigrants who came back to their country after the WWII and the ethnic Turks and concluded, that the nationality is a decisive, perhaps even the most important prerequisite for successful integration. The practice of today, which calls for a successful integration as a prerequisite for nationality, proves to be a less successful policy.

Diminishing the cultural gap

Sociologist Ruud Koopmans argues that one of the most determinative factors in successful integration involves the cultural gap between host and guest. The greater the distance, the greater the integration challenge. *"Three decisive factors determine cultural distance: language skills, inter-ethnic contacts — especially those involving marriage — and values about the role of women. They all have something to do with religion "*. This applies to ideas about the role of women, which are derived directly from the Islamic religion. The greater the cultural distance between groups the more complicated inter-ethnic marriages become (Koopmans, 2016).

The most effective policies for immigrants' integration are, however, not universal but rather should be nationally, locally and institutionally specific. Individual states can borrow successful features of each other's immigrant integration and adapt it to another. How later immigrants and their descendants will be successful to integrate into their host societies depends on the process and policies itself. However, it is a two-way journey and without endeavour of the immigrants themselves, chances for a better future are poor.

Most immigrants are not coming for social benefits, but to improve their lives which include finding a good job for them. Efforts to better integration of immigrants should be an investment into the human resources rather than a cost. The financial costs of integration can be offset against longer-term economic and other gains and, as experiences have shown, the earlier the provision of adequate integration support, the quicker refugees can become self-sufficient, gain employment and contribute taxes (OECD, 2015).

5 Future's prospects and policy recommendations

It is uncertain how exactly the influx of refugees will impact the economy since it is impossible to predict the total number of the incoming persons and their background. If migration can make Germany better off depends mostly on the attitude of German policymakers and refugees themselves. The most important presumption in the long term will be the integration of asylum seekers, which can become quicker if the right policies are used.

Humanity of Germans and other relatively rich countries suggests, that they should admit refugees regardless of their economic impact. However, the economics still matters. One fear refers to the possibility that immigrants will compete for work of the native population and by this way will drag their wages down. Another is, that they will pinch the public purse. Although some of these concerns are justified, Germany should look more closely at the opportunities immigrants may bring.

5.1 Macroeconomic prospect

The inflow of asylum seekers will probably have an immediate expansionary effect on the economy through the *aggregate demand*. Additional public spending and higher levels of private and government consumption for the support services, such as housing, food, health, and education will increase aggregate demand.

Table 8 Components of GDP in Constant Prices (Percentage Deviation from the BAU Scenario 2010)

	No immigration	Low immigration	High immigration
GDP	-1.70	-0.54	0.72
Private Consumption	-1.52	-0.50	0.67
Public Consumption	-2.07	-0.63	0.82
Equipment Investment	-3.80	-1.19	1.60
Construction	-1.44	-0.46	0.62
Exports	-0.30	-0.09	0.11

Source: Lutz & Wolter, 2010⁷

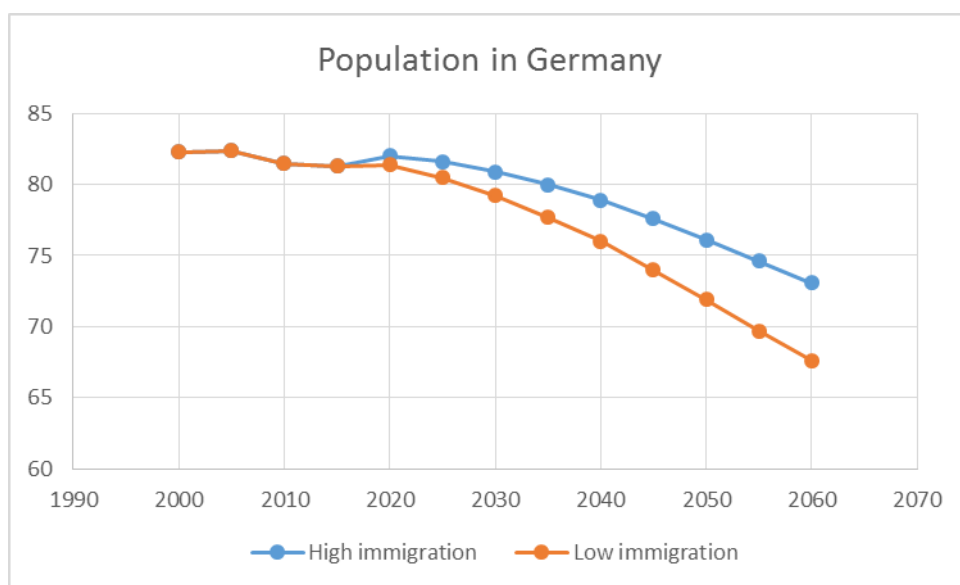
⁷ Authors used the econometric Input-Output model INFORGE to show the effects of immigration on the German labour market economy. There were four different scenarios distinguished: First assumes a total number of 250,000 immigrants per year called „business as usual“ (BAU), the second assumes immigration per year at 350,000 („high immigration“), and the third 150,000 („low immigration“) and zero („no immigration“).

Where aggregate demand grows, aggregate GDP will grow as well, although the development is less clear when it comes to per capita *GDP growth*, which is more likely to decline over the long-run reflecting the weaker performance of refugees. Table 8 below shows that higher immigration leads to higher components of GDP in contradiction to no or low immigration.

Changes in the aggregate demand have also other consequences and are likely to put pressure on the ***aggregate supply***. Immigration may lead to changes in the mix of goods and services which are being produced as the demand for the products throughout the different groups of the population varies. The inflow of refugees will also put a pressure on the housing market as the increase of demand for houses will increase the rents and housing prices. This will be particularly challenging in the cities with the high density of population, where the prices of housing are already very high.

Migration has **a demographic impact** not only by increasing the *size of the population* but also by changing the age pyramid of receiving countries and therefore by reducing dependency ratios, as it was already explained previously. Positive impacts on the labour market will develop gradually, and are likely to be limited over the short-run since most of the refugees must first overcome the language barrier and acquire skills necessary to succeed.

Figure 23 Population in Germany – prediction



Source: Own processing according Destatis: Population Pyramid

Figure 23 shows two possible scenarios based either on on the high or low immigration. As the figure suggests, continued trend based on the higher immigration will increase the

population, however it will not be sufficient to maintain the current number. In the medium to long run, population will be declining anyway.

As immigration increases the *labour force* of the receiving country in the long-run, the growth in labour supply affects the *average wage*. Despite the belief that immigrants harm wage and employment opportunities of natives, the majority of the empiric studies do not support this conclusion and sudden inflows of immigrants, even large, were not found to reduce native wages or employment significantly. This fiscal expansion should help to compensate for possible pressures on the lower wages due to the higher labour supply and inflation associated with the entry of refugees into employment.

The *fiscal impact* of immigrants' changes over their lifetime, therefore, the age structure of the immigrant population is a key determinant of its net fiscal impact. Although immigrants used to be a fiscal burden to Germany because lots of them are pensioners, the new arrivals are in the contrast as most of the immigrants are young and able to work. The impact of the refugee inflow on pension spending is likely to be favourable, but rather small in the long term. However, most studies did find, that immigrants have a rather positive effect on the fiscal balance.

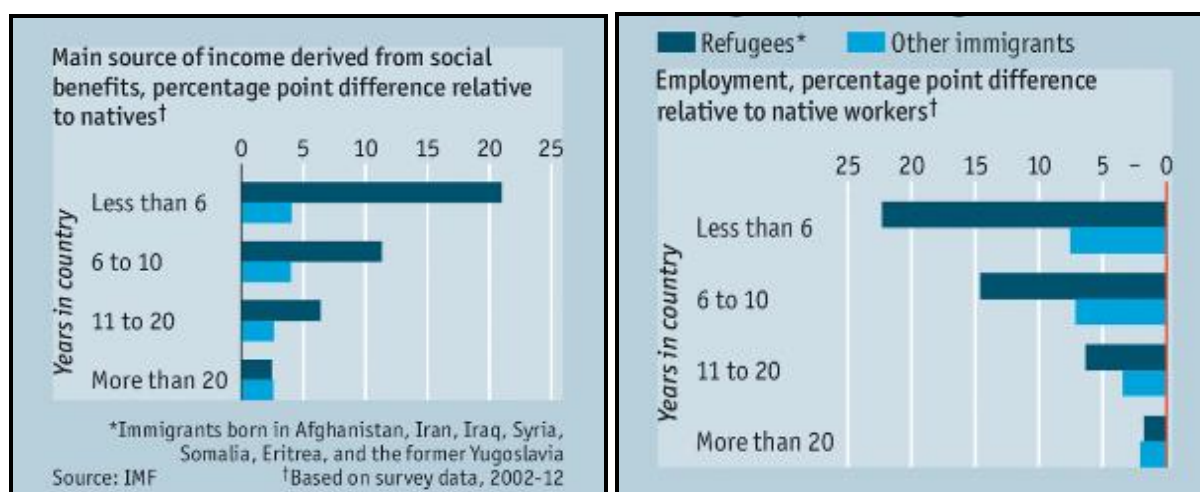
The effects of the asylum seekers in the *EUROMOD* simulation model are captured by two shocks: one to the size of the population and one to government expenditure. It is assumed to take around two years for the refugees to become eligible to work. Once eligible to work, refugees will have a lower participation rate than natives by 5% (declining to 3% by 2020) and a higher unemployment rate by 15% (declining to 12% by 2020). The direct fiscal costs include costs for all individuals in the asylum process as well as financial support for rejected applicants for one year (IMF, 2016).

The impact of the refugees on *GDP and employment* in the medium and long run will depend on the speed of their integration in the labour market, the extent to which their skills will complement or substitute those of the natives, and their impact on the allocation of resources. The level of German GDP is supposed to be lifted by about 0.3% by 2017 and in the medium-term impact even more – between 0.5 and 1.1% higher – assuming the successful labour integration.

The *earning and employment gaps* between the refugees and natives are diminishing with time spent in the host country, as immigrants improve their language skills and gain more job

experiences. The analysis shows, that immigrants earn 20% less than natives when they arrive in the country. Initially, immigrant wages catch up by 1% per year, but the process slows over time and wages never fully converge. The assessment of German experience shows that immigrants make substantial contributions to the economy but face considerable obstacles in the labour market that are overcome only gradually.

Figure 24 Differences in the employment and main source of income



Source: The Economist, 2016

The first graph in the Figure 24 shows the differences between immigrants and native population in the receiving social benefits and suggests, that with the longer stay in the country, the differences are diminishing. The same applies to the second graph which suggests, that differences between immigrants and native population in the employment are with an increasing number of years minimizing, and that immigrants even slightly overtake native workers in the term of employment.

Immigrants without good German skills or German degree have a **wage gap** of 30% and as the language skills are improving, the gap is closing by 12%, and a German degree by another 6%. The gap for migrants born in advanced economies is a third of that of other immigrants. While the participation rate of immigrants is also initially lower, it fully converges after 20 years.

In the **medium-term**, migrants will improve the economic outlook by filling unoccupied jobs. In the long-term, though, high immigration will not reduce the shortage of skilled workers and immigrant workers will only temporarily fill those gaps. After replenishment, labour demand will increase at least as quickly as labour supply. The positive effect of immigration does not

appear in the labour market balance, but rather in the higher economic growth (Vogler-Ludwig, 2014).

Net migration to the Europe is expected to maintain a positive overall growth rate for the region's population until 2035 but thereafter projected immigration is insufficient to maintain a positive rate and cannot reverse the trend towards increased *population ageing*. The current age structure of the population is expected to have a stronger impact on the demographic development than the balance of immigration to Germany. Although the working-age population will shrink tremendously, high net immigration can slow the pace and lessen the extent of population ageing (Destatis).

5.2 Socio-political prospect

Although Germany is much-opened country and every fifth person there has a migration background, many Germans are realizing that their country is changing in a fundamental way. Their worries are justified by the fact, that immigration could overburden the welfare system. The bigger fear, however, comes from losing their national identities as they see the rising numbers of foreigners, especially Muslims from Turkey and the Middle East.

According to a 2016 survey analysis by Jürgen Schupp, only 28% of the respondents in Germany are in favour of migrants and refugees being accepted without number and time limits, while a majority of the German society agrees to their stay only as a temporary mechanism for humanitarian reasons, rather than economic investment. At the same time, more than 50% of Germans see more risks than opportunities in the massive influx of migrants and refugees. The opinions, of course, differ according to the people's occupation and age, as young people seem to be more open minded and more welcoming towards the refugees.

How Germany differs from other two European immigration countries UK and France are the facts that public debate about this topic was delayed for too long. Politicians were scared of discussing issues of immigration, culture, and race for fear of evoking ghosts of their Nazi past. Country lived under the illusion that migrants are only guest workers who would go back to their countries when their labours are done. As millions of new migrants were arriving, it became clear, that this large numbers of guest workers were never going to leave.

The attitude of Germans, however, did not change and they still do not perceive those migrants equally.

The *net social impact* of an immigrant over his lifetime depends substantially and in predictable ways on the immigrant's age at arrival, education, the reason for migration and similar. As most of the recent refugees come from the same or similar region, that is the Middle East, and speak either Arabic or Persian, we can suppose that they will create communities within Germany. Although this process is natural, for a better social integration of these migrants it is needed to avoid creations of ghettos. Asylum seekers need to learn to live in a different culture and need to adapt to it more than suppose, that the country itself will adapt to them.

The other important aspect of the social impact is a workplace. Workforce diversity can lead to communication problems, disagreement, and dysfunctional teams. The open-mindedness of the native workforce as well as of employers will be a necessity to smooth functioning of both groups next to each other. The coming generations will be more likely than their ancestors to hold multiple citizenships, have mixed ethnic racial background and have cultural, ideological and religious frames of identification that do not map directly onto nation-states.

There are common complaints that refugees have added to security problems in general and crime rates, thefts, murders, etc. Similar cases were already observed in Germany, and probably the most known case is the one of New Year's Eve in Cologne, where mass sexual assaults and numerous thefts were reported. After the assaults in Cologne have been many terrorist attacks which happened recently throughout the Europe attributed to the recent migrants, which only prompted the hatred to asylum seekers amongst Germans.

The similar attacks proved to lead to a hardening of attitudes against immigration and there were some protests and demonstrations demanding respect for women. The xenophobic moods and increase in violence in Germany caused the rise of Germany's AfD party as more is being identified with this movement. The similar movements may accelerate violence between Germans with racist tendencies and hatred towards migrants.

In a survey by TNS Forschung for Spiegel (2015), 84% of respondents said, that many refugees will result in lasting changes, 54% is concerned that they are the cause of higher terrorism rates, and 51% believe that the crime rate will rise. Their fear is justified, as, according to the statistics, the number of attacks compared to 2014 at least quadrupled and since the summer, the increase in violence has been very steep.

As it was already said, the most important presumption of a positive outlook is the refugees' integration. Quick labour market integration will minimize the risk of social exclusion of the refugees and maximize their net contribution to the public finances in the longer term, which is a win-win situation for the German government as well as for the asylum seekers.

5.3 What can be done on the European Level?

The common EU asylum policy has shown to be inadequate, and reforms to build a more harmonized and cooperative approach are necessary to achieve a workable asylum and border management system. Within Germany, which proved to be de facto leader of the whole refugee crisis since 2015, policy makers should be unified and persistent in their opinion and ideas, to avoid any future discrepancies. Legal obstacles such as restrictions on asylum seekers to take up work while their case is being processed should be eased by the European Union as a whole.

What the European Union needs to do is to develop a unified and successful strategy for the integration of migrants and ethnic minorities. EU institutions have not yet played a significant role in devising and directing cross-national integration policies, except for some anti-discrimination directives. It is called for a more direct and active role in the community in promoting integration, and the Commission is considering the necessary steps to develop and implement an EU integration strategy (Rudiger & Spencer, 2003).

Exclusion and inequality have multiple causes and require a range of economic, social, cultural and political levels to address them. Policies should not focus only on integration into the labour market, or on cultural attitudes, but should take a holistic approach. To do so effectively, the specific needs and experiences of different racial, ethnic and religious groups need first to be identified. It is also necessary to assess the differing economic and social barriers they encounter, including discrimination. In that context, steps should be taken to equalize the legal status of long-term residents and nationals. The integration of Muslim minorities should be a priority.

The specific policy recommendations according the IMF are as following:

Table 9 Policy Recommendations for the European Union

Issue	Recommendations
<p><i>Asylum policies</i></p> <p>The European asylum system is strained.</p>	<ul style="list-style-type: none"> • Create a more harmonized and cooperative approach to processing and accommodating asylum seekers among member states; • Take collective action to secure the external border; • Give assistance to countries bordering conflict areas, where the majority of displaced people are resident.
<p><i>Labour market integration</i></p> <p>Slow integration of refugees raises fiscal costs and exacerbates social tensions.</p>	<ul style="list-style-type: none"> • Lower barriers to work eligibility during asylum processing phase. Provide language and job search training early; • Where high entry wages are a concern, allow for temporary exemptions to the minimum wage regime or provide wage subsidies to employers; • Tackle inactivity traps by reducing marginal taxes on low wage workers and tapering social benefits more gradually upon entering employment.
<p><i>Stability and Growth Pact (SGP)</i></p> <p>Costs of absorbing refugees could conflict with the SGP rules.</p>	<ul style="list-style-type: none"> • Allow for temporary deviations from the SGP to accommodate refugee expenditures on a case-by-case basis, as announced by the EC.
<p><i>Long-term problems</i></p> <p>Persistent lack of integration raises government debt, worsen income inequality, and miss an opportunity to alleviate demographic pressures on social insurance systems.</p>	<ul style="list-style-type: none"> • Tackle bottlenecks to low-cost housing such as overly restrictive land use laws and time-consuming construction permits; • Ensure early inclusion of immigrants' children to the schooling system; avoid segregating immigrants' children in particular schools; provide adequate language support and cultural immersion; • Facilitate access to basic financial services (bank accounts) for refugees; • Grant geographical mobility to accepted refugees.
<p><i>Product markets</i></p> <p>Inflexible product markets can raise barriers to self-employment for refugees.</p>	<ul style="list-style-type: none"> • Simplify regulations, reduce effective protection of incumbent firms, and accelerate skills-recognition for refugees.

Source: IMF 2016

5.4 Policy recommendations for Germany

Public opinion on a topic of refugees became highly divided tending to be more negative due to the rather unsuccessful policy of Angela Merkel. Her three governments have shaped Germany's reputation in the EU over the past decade and facing national elections this year, it could also be the last time in the office depending on developments in the refugee crisis. However, as long as she stays in the office, more can be done to improve the current situation.

The priority should be to address the humanitarian emergency in conflict countries, neighbouring countries, along with the refugee routes, and in refugee destination countries. In the EU, with the current system for accommodating and processing asylum seekers overwhelmed by the size of the inflow, policies must focus on strengthening receptive capacity and processing capabilities. In addition, providing financial resources to countries bordering conflict areas, where most of displaced people and asylum seekers are located, can contribute to slow asylum seeker flows and relieve current strains.

Tailored programs in Germany can help to overcome disadvantages such as lack of information, lack of transferable skills and qualifications and low language proficiency. This would help to facilitate further integration, which is the most important presumption to the success in the current environment. Measures to accelerate skill recognition and targeted training can also help immigrants fulfil certification requirements for certain careers. The government should try to suppress the xenophobic moods and for the asylum seekers, who were granted the protection status, should do all the necessary steps to integrate them into their new country of stay. (See Subchapter 4.3 – Integration of new migrants)

Recognized refugees should be treated like the long-term unemployed in the minimum wage legislation, that is, they should be exempt from the minimum wage for the first six months of employment. Granting temporary and limited exceptions from minimum wages may be justified because they would offset the asylum seekers' initial disadvantages relative to native workers. Also, the wage subsidy programs for private employers may show to be effective in improving refugees' likelihood of having a regular job. (IMF, 2016)

Since most of the initiatives German government recently launched are still at their beginning, it is quite unsure how they are going to work and what consequences they will have. The government must continue to expand its language courses offer either through the centres, by the help of volunteers or language tandems and have an integration of refugees as a priority.

Conclusion

Germany represents a strong member of the European Union, whose economy belongs to one of the very successful stories. Its history goes from the World Wars, through the processes of restructuring and reunification, to the laying the foundation and later becoming the most powerful leader of the European Community. Its economy was not hit once or twice, like the economies of the other countries, but still it has always been able to withstand.

German economy has already challenged to the similar influx of refugees: either in the 50s, when it desperately needed the workforce into its devastated economy, or in the 90s, when the country has been reunited and the West faced a huge influx of migrants from the East. Nowadays, Germany faces another migration challenge and though European migrant crisis whose refugees are coming mostly from the war hit Middle East. Those influxes of immigrants have one thing in common: all the people who were willing to leave their homes and families did so in the hope to live a better life.

The massive influx of immigrants coming mostly from the Middle East, creates even a bigger challenge for Germany that the previous waves in the last decades. Germany is going through another crisis, which was not ready for neither logistically, nor legally. Cities are overcrowded, local authorities are overwhelmed and the German government faces billions of euros in additional costs. Although Germany has become de facto immigration land together with France and Great Britain, its position is now diametrically different: most of the refugees are coming from very different cultures, have no basic language skills, and only a part of them have higher education and is able to work in a high-skilled industry.

A different background of the immigration makes an integration into the German society and labour market much more difficult. The hardships of the assimilation could be observed also on the case of ethnic Turks, who are still outsiders for many natives, and who even after the decades do not consider Germany to be their home. Not only were they not able to fully integrate into the German society, but many of them are lagging behind the natives in the terms of education and income. The integration of the current wave of refugees will last even longer than the previous cases, if it succeeds at all. Both sides, Germans as well immigrants will need to adapt their expectations. Integrating the hundreds of thousands of asylum seekers into the German society will take a long time, and frustrations on both sides are sure.

The question, how will country deal with the refugee crisis does not shape only the future of Germany itself, but the other countries as well. For some countries Germany might be a role model, trying to repair its unforgettable war past with the humanitarian help to those who are in need. However, other countries, as for example Visegrad Group, may sabotage its decisions. Countries in the European Union, as well as the population, divided itself into the two tribes: on one side we have the ones welcoming immigrants with open arms, while on the other those, who believe that this solution is not sustainable and would rather help the war-torn countries at the epicentre of conflict.

The main aim of this thesis was to assess the possible impact of the immigrants on the German economy in the long term and to determine, whether they will represent a challenge or an opportunity.

The current challenge German economy faces is its ageing and declining population and probably the most important macroeconomic impact of the immigrant is, that they help to reduce the old-age dependency ratio. As this ageing and declining population generates greater fiscal burden to the German government, future immigration can partially rectify these fiscal imbalances by boosting the workforce in the short term. The short-term prediction for the German labour market is that immigration will be able to partly improve the economic outlook by filling unoccupied jobs.

Despite the initial positive impact on the German economy, labour shortages cannot be eliminated by immigration in the long term. Even though employment and economic growth should improve in the short term, country will be still confronted with the same shortages in the labour market in the long term. Migration is, however, very likely to shift the economy and its labour market to the higher growth path. In the long term, a decline of Germany's population is inevitable and even with the high migration, the number of deaths will exceed the number of births increasingly. Even if immigration cannot stop population and labour supply from declining, it is at least able to decelerate it.

In the following years, German fiscal policy is going to have an expansionary impact on the economy due to the higher spending to provide humanitarian assistance and promotion of the integration of refugees. Despite the initial GDP growth, the influx of refugees is unlikely to increase potential output in the longer term. The extent of this increase will depend on how well immigrants will succeed in being integrated into the German labour market.

It is sure, that immigration will grow even a higher importance for Germany over the next 50 years. Demographic trends are shaping the future and the evolution of the economy depends on the way German policymakers respond to the given situations. One of the ways to make an integration of the refugees easier is to raise the labour market flexibility, which still remains very low. With the better flexibility and removing administrative barriers and bureaucracy will German government not only help to the better integration of the refugees on the labour market, but to its economy as well.

Looking at this issue from the perspective of opportunity, Germany can use this influx of immigrants for its benefit and with the right policies make its economy more sustainable. By accepting the refugees Germany will not only help its economy, but it may also help to save many human lives facing bad conditions in their own country. This was also the original idea of Chancellor Merkel until the unsustainable number of incoming migrants get out of her hand.

The most serious risk for the Germany does not represent only the modest economic impact in the long term, but also in the creating of a new class of economically underprivileged and uneducated people with the hardships of being employed. The long-term impact of the refugees on German economy will be more favourable depending on how well refugees will be integrated.

Whether refugees turn out to be a burden or a blessing to the German economy is not sure yet. It is a long-term process both German policymakers and refugees themselves can influence. German policymakers by facilitating integration, and refugees by respecting the country they live as well as adapting.

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List of Abbreviations

AIDA – Asylum Information Database

HRW – Human Rights Watch

IBP – International Business Publications

ILO – International Labour Organization

IMF – International Monetary Fund

IOM – International Organization for Migration

OECD – Organization for Economic Cooperation and Development

UNHCR – The UN Refugee Agency

UNISDR – United Nations International Strategy for Disaster Reduction

UNOCHA – United Nations Office for the Coordination of Humanitarian Affairs

WEF – World Economic Forum

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