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Influx of refugees to Germany requires investment in housing, schools and minds

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The accelerated forced displacement of people worldwide poses major challenges for Germany as well. The sharp increase in refugee numbers in Germany is causing acute bottlenecks in the registration, processing, sustenance and accommodation of those seeking refuge. In many places, capacities can only be adapted temporarily to the unexpected needs. The cost, however, is manageable for Germany.

The successful economic integration of refugees who wish to stay in Germany requires investment in three areas:

(1) Housing: The current housing shortage in large urban centres will increase further. Incentives for more construction activity should, therefore, be provided and vacant housing units used appropriately.

(2) Schools and daycare centres: The large number of underage refugees will increase student numbers in the medium term. Their need for school education must be met. That requires more investment in educational infrastructure and additional expenditure on teachers and support staff.

(3) Human capital: Germany is reliant on the targeted immigration of skilled workers in order to mitigate the soon accelerating decline of its working-age population. To what extent the incoming refugees, whose age structure is positive for an ageing economy, will contribute to this depends on purposeful investment in human capital. German language proficiency, systematic identification of skills and suitable training measures are indispensable prerequisites for successful integration into the labour market.

Facts and figures: refugee numbers at record levels

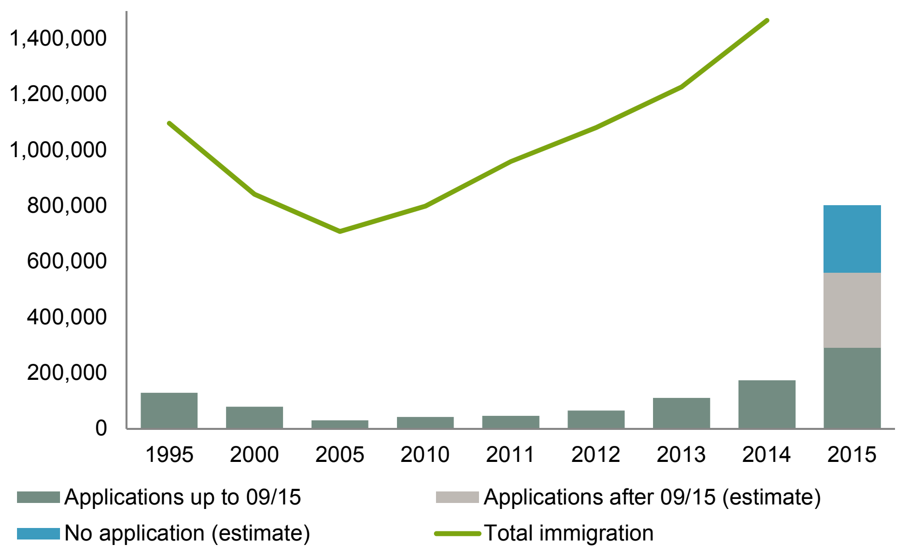
The world is currently witnessing the largest refugee movement since World War II. Some 60 million people are fleeing their homes. The vast majority are uprooted within their home countries or seeking refuge in neighbouring developing countries (see Box 1). Only a fraction of them enters the wealthy industrialised countries. Across the European Union, around 770,000 first-time requests for asylum were made between January and September 2015. Germany is the EU state taking in the highest number of asylum-seekers – currently making an above-average contribution relative to its population size and economic strength.

The number of requests for asylum received by the Federal Office for Migration and Refugees (BAMF) has been on the rise for several years. In 2014, the number of first-time requests for asylum reached 173,000, a level last seen after the collapse of the Eastern bloc. First-time requests have jumped in 2015, with 290,000 requests already received between January and September (Figure 1). That is only a portion of the more more than 500,000 refugees who have entered Germany, however, as many requests for asylum have not yet been registered. The BAMF officially expects 800,000 refugees before the end of the year 2015. Germany's economic research institutes predict 900,000 refugees in their joint autumn report.[1]

So far in 2015, around one third of the asylum seekers have come from Syria (23 %), Iraq (5 %) and Eritrea (3 %). Giv-

Figure 1: Migrants and asylum-seekers

First-time applications for asylum in Germany (including estimate), immigration to Germany 1995 to 2015



Source: Federal Office for Migration and Refugees, Federal Statistical Office en the situation in these states, applicants are unlikely to have their requests rejected and will almost certainly not return to their home countries anytime soon. The majority of refugees from Afghanistan (6 %) are also granted asylum. The many asylum seekers from Serbia, Macedonia, Bosnia and Herzegovina, Kosovo, Albania and Montenegro (together some 40 %) are in a different situation. Their requests for asylum in Germany have low chances of success.[2] It can, therefore, be estimated that around 300,000 to 350,000 of the 800,000 refugees arriving in 2015 will stay in Germany for the foreseeable future. That translates into four successful requests for asylum per 1,000 inhabitants. For comparison: in Sweden it is nine, in France and the UK fewer than one.

Refugee immigration can be expected to continue at a considerable level in the coming years as well. Improvements to the situation in the crisis regions in the Middle East and the Horn of Africa will require lengthy political processes. The refugee migration to particularly accepting countries such as Sweden and Germany could be reduced primarily through a more even distribution across all EU member states.[3]

Background: Germany, an immigration country

Since World War II, Germany has been shaped by various waves of immigration, the first of which was composed of some 13 million displaced ethnic Germans from Central and Eastern Europe. In the 1950s, 2.7 million GDR citizens migrated to the Federal Republic. The next wave consisted of 14 million migrant labourers referred to as ‘guest workers’ who came to Germany on the basis of labour recruitment agreements with Spain, Italy and Turkey (among other countries) between 1955 and 1973. Their family members followed them into the mid-1980s. In the 1990s, two large groups of migrants arrived: (late) repatriates after the fall of the Iron Curtain and refugees of the Yugoslavian civil war.

Every year between 1950 and 2014, an average of 690,000 people migrated to Germany from abroad. Average net immigration (less emigration) was approximately 180,000. Germany has been an immigration country since the 1950s at the latest and today one in five residents has a migrant background[4].

Reorientation of Germany’s integration policy came late

In the light of this, the reorientation towards a modern, activating integration policy set in late, namely around fifteen years ago[5]. This was done by fundamentally establishing integration as a government task, reforming legislation on foreigners and focusing on education and language acquisition. That is the basis for further reform steps.

The fruits of effective integration policy can only be harvested over the long term. The failings of the past are today reflected in the reduced labour market success of persons with a migrant background, among other outcomes. Their unemployment rate in 2014 was 8 %, clearly above the overall rate of 5 %.[6]

First priorities: sustenance, accommodation and processing

Forced migration not only poses major challenges for the target countries’ integration policy – it also stretches their humanitarian capacities, as the first priority is to meet people’s basic needs. In addition to registering and distributing the refugees, authorities need to provide medical services, accommodation, counselling and support. Capacities are already almost exhausted in many places, despite great efforts by agencies, welfare associations and dedicated citizens (see Box 2).

A major administrative bottleneck is the processing time for requests for asylum. A backlog of more than 270,000 pending applications has accumulated at the BAMF for many years. On average it takes about half a year to process one application. However, fast asylum proceedings are of particular importance because they enable authorities to focus accommodation and counselling services

Box 1: Worldwide forced migration and its causes

At the end of the year 2014, almost 60 million people were refugees – the highest number since the Second World War. The majority of refugees around the world are internally displaced persons (IDPs) who have reached an unprecedented level of 38.2 million. The countries with the highest numbers of internally displaced persons are Syria (7.6 million), Colombia (6.0 million), Iraq (3.6 million), the DR Congo (2.8 million) and Sudan (2.2 million).

In addition to internally displaced persons, a further 22 million people were refugees in other countries. The main countries of origin were the Palestinian territories (5.3 million) and Syria (4.0 million), followed by Afghanistan (2.7 million), Somalia (1.2 million) and Sudan (0.7 million). The countries that have taken in the highest numbers of refugees were Turkey (1.6 million), Pakistan (1.5 million) Lebanon (1.2 million), Iran (1.0 million) and Ethiopia (0.7 million). At the end of the year 2014, around 86 % of refugees worldwide were in developing countries, with one quarter of all refugees finding refuge in the sub-group of least developed countries (LDCs).

The overwhelming majority of displaced persons around the world are civil war refugees (90 %). The Syrian civil war alone is responsible for 20 %. Repression and human rights violations (e.g. in Eritrea and Myanmar), as well as natural disasters and extreme weather events (e.g. in Bangladesh and Haiti), also force people to flee their countries. In this context, extreme food insecurity is another driver of forced migration.

Author: Dr Stefan Lindemann, KfW Development Research on those who have good prospects of staying in the country. Furthermore, important integration measures can begin sooner.[7]

Investment in the future no. 1: residential construction

The large numbers of refugees not only push the initial reception centres and provisional shared accommodation facilities to their limits in the short term – in the medium term also the available housing stock. The migrant influx is colliding with the already existing housing shortage in large cities – in other words, where refugees tend to have better prospects of integrating.[8] Reports are already circulating about scarce rental housing in the lower price segment and the confiscation of vacant homes. These problems will increase in the months ahead when more refugees from the shared accommodation facilities enter the housing market.

Migrant influx vs. urban housing shortage

In spite of noticeable increases over the past years, construction activity is insufficient to meet the medium-term housing needs. In 2014, 245,000 homes were completed. That was 13 % more than in the previous year and over 50 % more than in the year 2010. For 2015 we expect a five per cent increase to 260,000 homes (Figure 2).[9] New construction activity will thus remain slightly lower than the forecast requirements. The Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR) estimates that around 270,000 new homes will have to be built each year between 2015 and 2020. This forecast, however, does not take into account the unexpected migrant influx.[10] The Federal Ministry for Building (BMUB) has increased the estimate to 350,000 housing units per year on the basis of updated migration figures (Figure 2).[11]

The main incentive for construction investment: more urban building land

The influx of refugee migrants calls for a short-term, vigorous increase in residential construction investment. Investment incentives should therefore be created, particularly in large urban centres.[12] The political debate on suitable measures is well underway.[13]

Most market observers agree that building land is the crucial bottleneck and price driver – precisely because the new demand for residential construction concentrates on large urban centres where land is particularly scarce. One effective measure would be to designate new building land even if it ran counter to the political priority of inner-core densification.[14] There are different views, however, of the construction industry's demand for tax benefits in the form of higher depreciation allowances. The BMUB has signalled a willingness to act by granting a temporary special depreciation allowance tied to specific regions or purposes which can thus have a steering effect.[15]

Social housing construction as a supplement

To support this incentive policy, a temporary revival of social housing construction would be suitable to effectively increase the supply of affordable housing in urban agglomerations. Housing has recently become more important in municipal investment planning, as illustrated by the KfW Municipal Panel.[16] This is

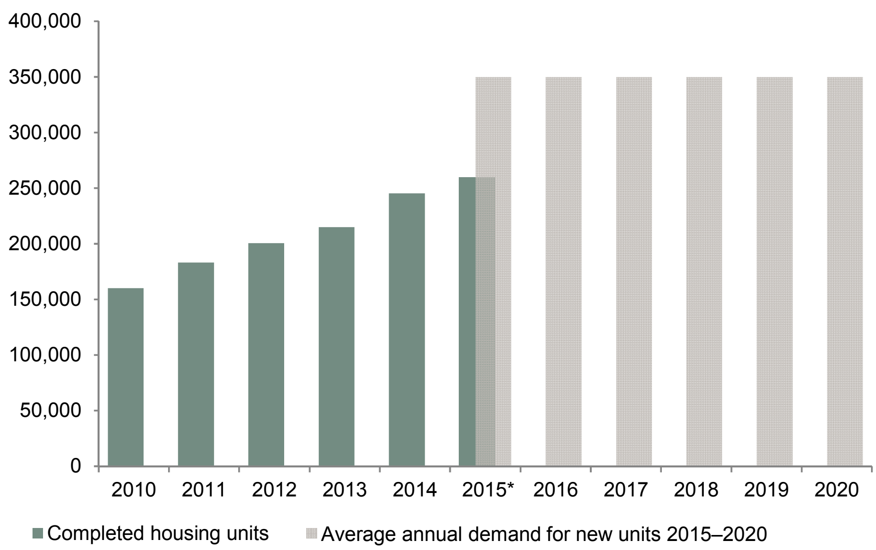
Box 2: Current legislative package addresses acute capacity problems

The recently adopted package of asylum legislation is intended to free up processing capacities while also expanding them. To free up capacities, asylum proceedings are to be fast-tracked by increasing the staff of the BAMF and expanding the list of "safe countries of origin". Faster deportations (including re-entry bans) and benefit cuts as disincentives are intended to reduce the number of asylum seekers with low chances of residency. Experience suggests that a noticeable impact on the duration of proceedings and on the number of asylum seekers from particular countries of origin can best be achieved in combination with accompanying measures (local information campaigns, improved labour migration opportunities).

In particular, urgently needed additional federal budget funds for the financially overstretched municipalities are intended to expand capacities in the short term. The funds committed for the current year will be doubled to EUR 2 billion and a reserve of EUR 5 billion formed for 2016. In addition, the provision of initial reception centres and shared accommodation will be facilitated through the granting of building approvals and funding. Several promotional institutions of the federal states and KfW have launched specific promotional programmes for this purpose.

Figure 2: Investment gap in residential construction

Housing units completed between 2010 and 2015 (* = KfW estimate) and forecast demand for new units 2015-2020



Sources: Federal Statistical Office, BBSR likely to be due in part to the strong migrant influx. Investments in social housing construction will rise sharply from the year 2016. The German Federal Government will double allocations to promote residential construction up to the year 2019 to EUR 1 billion per year and will release land at reduced prices.

Occupy vacant units, too – where there is work

The already-decided and forthcoming measures for increasing new construction activity will probably not be sufficient to meet the sudden additional demand. Approval and construction takes time and the shortage of building land cannot easily be overcome. Besides, in the short term the capacities of the construction industry – including personnel – are limited, with more than 70 % of construction firms that are hiring expecting problems recruiting skilled workers. A particular concern in the sector is the lack of applicants in the professions in demand.[17]

Using vacant residential units in Germany should, therefore, be part of the solution strategy. It is true that a large portion of the 1.5 million vacant housing units is unsuitable because of a lack of local jobs. For migrants this equals poor integration prospects. However, given the good labour market situation, a large number of medium-sized cities and rural areas currently offer not just housing but jobs as well. This must be taken into account as much as possible when distributing and advising refugees.[18]

Investment in the future no. 2: educational infrastructure

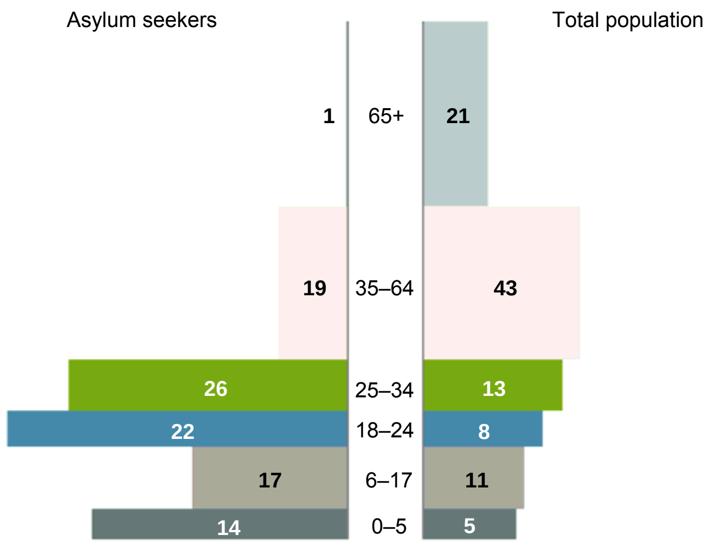
Housing is not the only challenge facing public budgets. The influx of refugees also requires investment in school and support infrastructure. So far the number of additional students can only be roughly estimated. In 2014, 17 % of asylum seekers were of school age (Figure 3). With this age structure, an estimated 55,000 of the 800,000 refugees will attend a general education school for some time. Another 75,000 unrecognised refugees are required to attend school prior to their repatriation.[19] These figures are roughly on the scale of the average annual decline in student numbers in Germany over the last ten years (-124,000 p.a.), although with a different geographical distribution. The simultaneous need for deconstructing and expanding Germany's infrastructure is not a novelty but the context makes it once again particularly evident.

Student numbers already higher in the current school year

In most German states, school attendance is compulsory for underage asylum seekers after three months, irrespective of the state of their application. Student numbers will therefore rise, particularly at the beginning of next year. The refugee children will encounter a school system that is facing declining student numbers on the one hand but also higher requirements of inclusion, vocational orientation, language promotion and regional concentration on the other hand. The KfW Municipal Panel 2015 shows a school infrastructure investment backlog of around EUR 32 billion. The additional students not only require additional investments but are also putting a strain on human capacities. In addition to new teachers, there is a need for interpreters, social workers and therapists for traumatised children.

Figure 3: Refugees include many children and young adults

Different age groups as a percentage of asylum seekers and the overall population (2014)



Sources: Federal Statistical Office, Eurostat, BAMF, own calculations

More child daycare places are needed

The asylum seekers include an above-average proportion of small children, with one to five-year-olds representing some 9 % of the total. Under the assumption that their quota of participation in early childhood education matches that of children with at least one non-German parent, 800,000 asylum seekers would require some 30,000 additional child daycare places.[20] For comparison: in the past years the capacities were greatly expanded (also because of legal obligations) by an average 50,000 places per year.

It is generally desirable for more children with a migrant background to take part in early childhood education. After all, they are underrepresented in Germany's child daycare centres even though they often require assistance in language acquisition and would therefore benefit in a special way.[21] Capacity expansion investments required to enable this would benefit the economy and society. The earlier education investments are made, the higher their returns. Early language acquisition in particular is crucial to later educational success – and thus for integration into the economy and society as well.

Investment in the future no. 3: human capital

The enormous refugee influx not only entails significant costs and extensive infrastructure investment. It also holds great potential for the economy. The demographic outlook for Germany is extremely unfavourable, as the post-war baby boomer generation will retire between 2020 and 2040, leaving a gap in the potential size of the workforce (Figure 4).[22] Recruitment problems and skills shortages will rise noticeably as a result. In order to mitigate this development, both domestic and foreign labour potential will have to be harnessed more effectively.[23]

Integrating refugees – an opportunity for an ageing economy

Germany relies not only on an increased labour participation rate of women and older citizens but on managed, skilled net immigration into the labour market. The extensive labour migration of the past years was mainly composed of EU citizens, most of whom will return home once the labour markets in southern Europe have recovered. It is the skilled workers from third countries who play a crucial role. The recent reforms to immigration legislation were a first step.[24]

Forced migration is fundamentally different from labour migration. In the former, the only entry criterion is the need for humanitarian protection. But even if no selection is made according to labour market aspects, many refugees will remain in Germany for a longer period of time – some of them permanently – and be available to the labour market.

Refugees have a favourable age structure ...

Furthermore, the refugees have a favourable age structure. Of the asylum seekers who arrived this year, 48 % are between 18 and 34 years old, so they belong to a generation that is underrepresented in Germany (Figures 3 and 4). In order to harness this potential, they must be successfully integrated into the labour market. Successful integration depends first and foremost on the refugees' vocational qualifications, language ability and willingness to integrate. Possibilities and incentives for businesses to hire refugees are further preconditions (see Box 3).

… but not all have adequate skills

Very little information is available about the education and vocational qualifications of the refugees – also because this information has not yet been systematically recorded. What is known is that the proportion of workers with medium-level skills is relatively low. In 2013, 13 % of the recognised refugees living in Germany were university graduates. In contrast, the proportion of refugees with no formal qualifications was 58 %. The refugees who are now arriving will presumably have a slightly higher level of skills on average. One out of every four refugees is from Syria, which has a comparatively good educational system that covers broad sections of the population.[25]

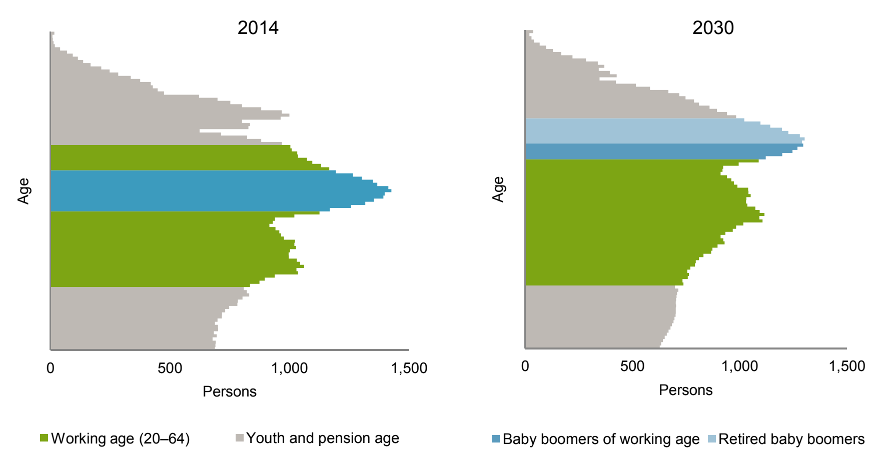
Irrespective of the precise proportions of formal skill levels, a frequent problem is that the existing skills do not match the requirements of the German labour market. Qualifications are often not recognised as equivalent because the skill level is inadequate. Missing certificates prove to be a major obstacle to skills recognition.[26] In other cases the formal professional qualifications can be only partly assessed because work procedures in the countries of origin are organised differently.

To be successfully integrated into the labour market, refugees will have to be supported earlier and more intensively than has been the case so far. To avoid losing valuable time, their skills should be captured as early as possible in the asylum proceedings. This also means involving the Federal Employment Agency (and other agencies) more closely, sooner and, most of all, systematically. Model projects have already yielded positive experiences with such integrated procedures. Their benefits have consisted not only in more comprehensive and, thus, more precise registration of skills but also in continuous support being provided by the same agencies and persons.

A special characteristic of the current wave of migrants is that while many do not have formal professional qualifications, they do have a good school education. That gives the vocational training system additional importance. Access to this was recently made easier for asylum seekers and tolerated refugees, for instance by shortening waiting periods.

The age limit of 21 still applies, however, and it does not accommodate the educational biographies of many refugees. Asylum seekers can now also begin internships and pre-vocational training courses more easily and this is often the crucial pathway to training and employment.[27]

Figure 4: Baby boomers leave a gap in the labour force potential



Source: Federal Statistical Office, 13th coordinated population projection (Variant G1-L1-W1).

Language barriers on the labour market

Even when a refugee's qualifications meet the demands of the labour market, efforts to obtain work, training or an internship often fail because of insufficient language skills. Knowledge of German is an exception among the refugees and, depending on their country of origin, they often have only very basic knowledge of English. That is the crucial barrier to entering the labour market, even for highly qualified refugees. Knowledge of the national language is, of course, not just a basic precondition for labour market entry but also for participation in social life.

The principle that applies particularly to language acquisition is: the earlier the better, as it takes time. A reasonable approach would be to systematically capture existing skills and the need for training directly when registering refugees or at the beginning of the asylum proceeding in order to immediately begin language courses. The status quo is far from meeting this ideal, as most asylum seekers and tolerated refugees have practically no access to language training and the capacities are already hardly adequate for recognised refugees and labour migrants. At political level, the first steps are now being undertaken, particularly with the Federal Labour Office financing language courses in the short term for up to 100,000 refugees with good prospects of residence. Further extensive investments will be required in order to create the structures for proficiency assessment and adequate course offers across the country.

A pronounced willingness to integrate

In a comparison of various groups of migrants, labour migrants integrate faster than refugees. As they deliberately migrate into the labour market they often have work from the outset and language skills. In the long term, however, refugees are often particularly motivated and integrate successfully as they have no option of returning home in the foreseeable future, which is a strong incentive for them to build a new life. Refugees (along with late repatriates) are the group of migrants with the strongest intention to settle.[28]

Labour market effects with a time lag

The integration of large numbers of refugees into the labour market can become a success story if early and comprehensive investments are made to promote their language skills and professional qualifications. The good condition of the German labour market and the refugees' willingness to integrate are enabling factors. On average across all OECD states, the employment rate of refugees is only 20 to 25 % in the first four years, rising to around 55 % after five to six years. It is only after around 15 years that their employment rate converges with that of labour migrants (approximately 75 %).[29]

Under the assumption of one million refugees in each of the years 2015 and 2016, the Institute for Employment Research (IAB) expects the labour force potential to rise by 324,000 persons this year and 610,000 persons next year. The impacts of the refugee flows on the

Box 3: SMEs welcome foreign skilled workers

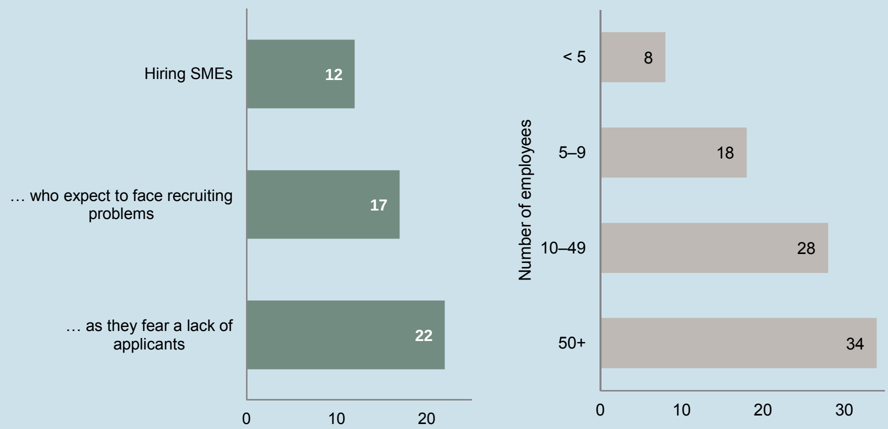
From an employer's perspective, language and skill deficits of refugees and other immigrants are a major obstacle to employment. Nevertheless, given the changing demographics, businesses are strategically embracing foreign skilled workers. The data of the KfW SME Panel 2014 illustrate this as well. Among the SMEs that are planning to hire skilled workers within three years, 12 % are implementing or planning targeted measures to recruit foreign skilled workers (Figure 5).

Especially when SMEs expect problems hiring skilled workers, they seek to harness foreign labour potential more frequently (17 %). Of the SMEs that expect a lack of applicants for their advertised positions, 22 % are actively recruiting foreign skilled workers. Large SMEs in particular are focusing their recruitment in this way, with around 30 % of SMEs with more than nine employees targeting their recruitment at foreign skilled workers. Among micro-enterprises with fewer than five employees, that proportion is only 8 %.

The efforts of SMEs to hire foreign skilled workers show that language deficits and vocational qualifications acquired abroad are not insurmountable obstacles. From the point of view of employers, however, other problems are in the way of hiring refugees, such as additional bureaucratic processes and unclear prospects of residence during the asylum proceedings. But planning certainty is what enterprises need most if they want to invest in the refugees' human capital – e.g. in the form of language courses, professional development and time-consuming induction. That is why speeding up asylum proceedings is so important.

Figure 5: Intentions to hire foreign skilled workers

Percentage of enterprises that have implemented or are planning measures to recruit foreign skilled workers. Applies to enterprises that want to hire skilled workers within three years.



Source: KfW SME Panel 2014.

labour market will only be felt gradually. While unemployment can be expected to rise only slightly this year, the IAB expects an additional 130,000 unemployed persons for 2016. These will mainly be the refugees themselves, who are unlikely to displace domestic workers on a major scale.[30]

Starting a business as an income opportunity

Paid employment is not the only job prospect for refugees; self-employment is also an option. In the past years, one out of every five business founders was a foreigner or person who did not have German citizenship at birth. Migrants have thus contributed to start-up activity in Germany in a somewhat higher proportion than their share of the population.[31]

Language and qualification deficits are a major obstacle on the pathway to self-employment, too. But at least the problems of formal recognition of vocational qualifications fade into the background for business founders. More than 40 % of migrants who have set up their own business in the past years in Germany had no (recognised) formal qualifications.

One advantage migrants have is knowledge of products and markets in their regions of origin, which they can often apply to set up businesses in the retail sector. Many migrants were already self-employed in their home countries. There, in particular, this is fraught with considerable difficulties such as unprotected property rights and bureaucratic arbitrariness. They find more favourable conditions in Germany. If they succeed in overcoming language (and other) obstacles, refugee migration has the potential to enrich start-up activity in the years to come.

Short-term outlook: costs in the billions but manageable

The global refugee movements also pose great challenges for Germany. In the short term, the historic dimensions of the refugee numbers lead to organisational problems, acute capacity bottlenecks and fiscal costs. In their joint autumn report, Germany's economic research institutes forecast additional expenditure of EUR 4 billion in 2015 and EUR 11 billion in 2016 for sustenance, support and social services. As a comparison: this expenditure is in the same order of magnitude as, for example, the annual tobacco tax revenue (EUR 14 billion) or the solidarity surcharge (EUR 15 billion).

The additional expenditure on accepting refugees does not put an excessive financial strain on Germany. Investments already planned in the federal budget do not have to be cancelled and even a balanced budget is still realistic, at least for 2015. By involving the federal level more strongly in the costs of refugee accommodation and sustenance, the legislator has addressed the main problem: a federal financial allocation that fails to meet the needs of the overburdened municipalities.

Long-term outlook: future investments in housing, schools and minds

With a view to the long-term impacts of forced migration, investments in residential construction, educational infrastructure and the refugees' human capital are of central importance. Germany is less prepared for the refugee numbers in these areas than in purely financial terms.

Many big cities already have a shortage of affordable housing. As refugees have the best prospects of integrating here (given existing networks and dynamic labour markets), the shortage will soon worsen. Incentives to increase new construction activity are, therefore, necessary, particularly by releasing new building land. Expanding social housing construction in the short term is a helpful complementary measure to create affordable housing in a targeted manner. Vacant housing stock in Germany can also contribute to meeting the demand, but only where there are jobs as well. This should be taken into account (more) systematically in distributing and counselling the refugees.

The many underage refugees will substantially increase student numbers and child daycare places. However, Germany's schools already have an investment backlog and are struggling with increased requirements of inclusion and vocational orientation. This makes investments in educational infrastructure and additional personnel all the more necessary.

Economic and social integration cannot succeed without sufficient knowledge of the national language. What will also be crucial is the swift and systematic ascertainment of vocational qualifications and needs-oriented additional training. This requires determined investments in the refugees' human capital. The first steps in this direction include offering language courses across the country and involving the Federal Labour Office in the asylum proceedings at an earlier stage. Some vocational training and labour market entry criteria can also be improved, e.g. by adjusting waiting periods and age limits.

The more successful the provision of housing, the reception in schools and the integration in the labour market, the greater the chance of cushioning the economic impact of demographic change. These investments in the future of Germany's society present a major challenge for the country. But it would be short-sighted to see them merely as a burden. ■

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[1] Cf. Joint Economic Forecast Project Team (2015): Joint Economic Forecast Autumn 2015 – Deutsche Konjunktur stabil – Wachstumspotenziale heben (Only available in German), Berlin, p. 33.

[2] Around one third of these refugees are from the discriminated Roma minority. The protection rate of refugees from the Western Balkans was recently higher in some EU states than in Germany (e.g. Italy, Switzerland, Belgium, Finland; source: Eurostat).

[3] The recent majority decision to distribute 120,000 refugees across the EU member states on the basis of a quota system is mainly a political signal in this context. First, its implementation is not yet secured and second it does not yet establish a permanent quota arrangement.

[4] Persons with a migrant background are all immigrants who arrived after 1949, all non-German residents born in Germany and their children.

[5] Compulsory integration courses combined with penalties for non-attendance are an example of the new (activating) policy of “opportunities and obligations”.

[6] Source: Federal Statistical Office (2015): Bevölkerung mit Migrationshintergrund, Ergebnisse des Mikrozensus 2014 (Only available in German), Fachserie 1 Reihe 2.2, Wiesbaden.

[7] For more on the processing logjam at the BAMF cf. Thränhardt, D. (2015): Warum das deutsche Asylsystem zu einem Bearbeitungsstau führt (Only available in German), www.mediendienst-integration.de/fileadmin/Dateien/Gutachten_Bearbeitungsstau_BAMF_2015.pdf).

[8] In Germany, one out of every two persons with a migrant background lives in a city with at least 100,000 inhabitants. In larger cities the labour markets are more dynamic and the differences between the jobless rates of persons with and without a migrant background are lower. Youths with a migrant background attend secondary schools and acquire university entrance qualifications (Abitur) more often in large cities. In addition, migrants in larger cities can benefit from existing networks, more advisory services and specific integration strategies from the local government.

[9] Cf. KfW Business Cycle Compass Germany, August 2015 (https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-KfW-Konjunkturkompass/PDF-Dokumente-KfW-Konjunkturkompass-EN/KfW-Konjunkturkompass-08_2015_EN.pdf). The estimate is based on, among others, previous construction permits and macroeconomic conditions (e.g. interest rate level, purchasing power, net immigration).

[10] Cf. Held, T. and M. Waltersbacher (2015): Wohnungsmarktprognose 2030 (“Housing market forecast 2030”), BBSR-Analysen kompakt 07/2015 (Only available in German). The Cologne Institute for Economic Research (IW) noted similar findings: it has forecast an annual demand of 266,000 new homes for the years 2015 to 2020 and 223,000 for the years 2020 to 2030. Cf. Henger, R. et al. (2015): Der künftige Bedarf an Wohnungen – Eine Analyse für Deutschland und alle 402 Kreise (Only available in German), IW policy paper 24/2015, Cologne.

[11] Supply and demand is also distributed very unevenly: Whilst there are serious problems in many large and university cities, housing in regions with a less attractive infrastructure often remains empty. The need for residential construction in metropolitan areas is therefore considerably higher than in rural areas. Regional construction should adapt to demand according to price adjustments on the real estate markets. The reality differs somewhat: Many more housing units have been completed in rural areas than necessary in the medium term. It is often the other way around in metropolitan areas. This misallocation can be explained by inelastic supply of urban building land, different incentives for private homeowners (consumption good) and commercial real estate (investment good), as well as asymmetric price elasticity in construction. Cf. Henger et al. (2015), p. 8ff (Only available in German)

[12] What is primarily needed is affordable living space but because of what is referred to as housing spillovers, higher-quality housing units can also provide relief as the relocation of solvent tenants frees up affordable living space.

[13] Cf. corresponding declaration of intent by the federal and state governments (www.bundesregierung.de/Content/DE/_Anlagen/2015/09/2015-09-24-bund-laender-fluechtlinge-beschluss.pdf) (Only available in German). The debated measures apply to four areas: 1. lowering standards (construction planning/procurement law, heritage listing/environmental protection), 2. acceleration of building permits (personnel increase, standardisation), 3. tax incentives (increased depreciations), 4. faster availability of more affordable building land (additional lots, waiver of land purchase tax).

[14] Besides, land already available obviously has to be built up. The speculative hoarding of building land, which increases when prices rise and interest rates are low, should therefore be counteracted.

[15] Cf. Fabricius, S. (2015): Auch Kasernen sollen Flüchtlingsheime werden, Interview with Federal Minister of Building and Construction Barbara Hendricks, Die Welt, 26.08.2015 (Only available in German).

[16] Cf. KfW Municipal Panel 2015, p. 26f.

[17] The data of the KfW SME Panel 2014 illustrate this; cf. Leifels, A. (2015): Recruitment of skilled workers in SMEs: Optimism must not distract from qualification problems, Focus on Economics No. 100, KfW Economic Research, Frankfurt am Main.

[18] A recent study by the Empirica Institute sees particularly good chances for the integration of families in rural areas. Cf. Braun, R. and H. Simons (2015): Familien aufs Land (Only available in German), Empirica paper No. 230, Berlin, www.empirica-institut.de/kufa/empi230rbhs.pdf.

[19] The household structures in the countries of origin and the high proportion of young men indicate they will be joined by family and offspring. That would increase the proportion of students.

[20] In the year 2013, the participation quotas of children with at least one non-German parent were 17 % for under three-year-olds and 86 % for three to five-year-olds. Cf. Autorengruppe Bildungsberichterstattung (2014): Bildung in Deutschland 2014 – Ein indikatorengestützter Bericht mit einer Analyse zur Bildung von Menschen mit Behinderungen (Only available in German), Bielefeld. The Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) arrived at a significantly higher estimate of 68,000 additional places for 800,000 asylum seekers because it also includes zero to 6-year-olds and applies the significantly higher participation quotas of the overall population. Cf. Menkens, S. (2015): In Kitas fehlen Zehntausende Plätze für Flüchtlinge ((Only available in German), Die Welt, 23 September 2015.

[21] The reduced participation quotas of children with a migrant background are only partly due to cultural differences. The main factors are the educational background of the families and their associated below-average labour participation rate. Tests reveal delayed language development in more than one third of five-year-olds who do not speak German at home, although this also applies to children of educationally disadvantaged families in the same order of magnitude. Cf. Autorengruppe Bildungsberichterstattung (2014), p. 62.

[22] According to variant G1-L1-W1 (“Continuity with weak immigration”) of the 13th coordinated population projection, the number of people of working age (between 20 and 64 years) will decrease from 49 million to around 44 million (40 million) in 2030 (2040). Higher net immigration will not significantly alter the results (2030: 45 million, 2040: 42 million). Cf. Federal Statistical Office (2015): Germany’s population by 2060, Wiesbaden, pp. 20ff.

[23] Cf. Zeuner, J. (2013): Solving the demographic problem, Focus on Economics No. 34, KfW Economic Research, Frankfurt am Main.

[24] From a legal and institutional point of view, the broad interpretation of the EU Blue Card and additional residence permits granted to skilled non-university graduates and highly skilled jobseekers has increasingly turned Germany into a modern immigration nation. Critique, however, has centred on the complexity of the existing legal framework and the lack of a clear communication strategy, among other issues.

[25] Cf. Brücker, H. et al. (2015): Asyl- und Flüchtlingsmigration in die EU und nach Deutschland (Only available in German), Aktuelle Berichte 08/2015, Institute for Employment Research (IAB), Nuremberg, p. 8f.

[26] Cf. Mirbach, T. et al. (2014): Endbericht Programmevaluation “Bleiberecht II” (Only available in German), Hamburg.

[27] The requirement to have internships and certain qualification measures approved by the German Federal Labour Office was abolished in August 2015.

[28] Cf. Brücker, H. et al. (2014): Neue Muster der Migration (Only available in German), DIW Wochenbericht No. 43, pp. 1126–1135; OECD (2015) (Abstract available in English): Indicators of Immigrant Integration 2015: Settling in, Paris; Cortes, K. E. (2004): Are Refugees Different from Economic Immigrants? Some Empirical Evidence on the Heterogeneity of Immigrant Groups in the United States, IZA Discussion Paper, 1063, Bonn.

[29] Cf. OECD (2015): Is this humanitarian migration crisis different? Migration Policy Debates, 07/2015, Paris, p. 8.

[30] Cf. Brücker, H. et al. (2015): Flüchtlinge und andere Migranten am deutschen Arbeitsmarkt: Der Stand im September 2015 (Only available in German), Aktuelle Berichte 14/2015, Institute for Employment Research (IAB), Nuremberg.

[31] Cf. Metzger, G. (2014): Existenzgründungen durch Migranten: Gründungslust belebt das Geschehen (Only available in German), Focus on Economics No. 67, KfW Economic Research, Frankfurt am Main.