



# **REFUGEES PROBLEM A GOLDEN OPPORTUNITY FOR GERMAN ECONOMY**

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## **Abstract**

Civil conflict in Syria, which started in March 2011, led to a massive wave of refugees, so this Refugees problem has been the biggest since World War II, but in this study we explain how the regulated and sound economies can turn this problem into benefits. The German economy, especially, can turn the refugees problem into a golden opportunity. We will study this subject through a quantitative easing policy and Un-equilibrium, and Relationship between Consumption and Investment.

## **Keywords:**

**Syrian, conflict, Refugees, German, Consumption, Investment, Quantitative Easing.**



## **INTRODUCTION**

Without doubt, the asylum seekers now represent a financial burden - one set to cost these nations billions in housing and other aid services. But in the long run, experts predict, many of them will stay and build new lives in Germany rather than return home. In a country projected to shrink by 13.2 million people by 2060, the newcomers could help Germany confront its long-term battle with population decline.

Chancellor **Angela Merkel** visited a Berlin refugee processing center and “welcome class” for migrant children, took selfies with migrants and called for fast integration, more rapid processing times and jobs for those offered asylum.

Addressing parliament, she said of the newcomers: “They need help to learn German, and they should find a job quickly. Many of them will become new citizens of our country.” She added: “If we do it well, this will bring more opportunities than risks.”

### **First: GERMAN ECONOMY**

German economy is sound and regulated economy; it has very important characteristics about response to any economic variables, because any element can have an impact on economy and this impact varies according to the duration (long or short term). While the impacts of relations give opposite results over a certain period, i.e. the negative impact on the short term convert as positive impact on the long term and vice versa.

German economy is one of the strongest, most regulated, and soundest economies despite the current depression in international economy. German Minister of Economy **Sigmar Gabriel**, issued an announcement concentrating on the strength of German economy despite the depression in international economy, and he said his government expected growth from 1.7% in 2015 instead of 1.8%, and expects 1.8% in 2016. He related the German economy dynamics to active internal market, and indicated that the Germans’ purchasing power would increase, because workers will gain an increase on their wages and salaries with an average rate of 2.6% in 2015, and 2.4% in 2016.



Many experts in the Institute of German Economic Researches (**DIW**), like **Ferdinand Fichter** (the head of growth department in **DIW**), emphasized that the economic atmosphere in Germany is very well, despite what is happening in Europe and the world.

All experts emphasize that German businessmen should not have any worries about the depression in Chinese economy, because they get all benefits from German internal market recovery, and the recovery in the European markets, in addition to the decrease in petroleum prices.

These experts believe that when the German government begins to spend billions of Euros on refugees, it will motivate the internal consumption, and some of them announced that the refugees, in the coming years, would be as government internal investment program, and would reflect positively on the economy and economic growth in the country.

In light of the above, we can analyze the consequences of newcomers arrival in Germany on the German economy especially the Macro economy as follows:

#### **1- QUANTITATIVE EASING POLICY:**

An increase in spending money on refugees (i.e. an increase in demand), can be considered as a Quantitative Easing policy, because coming refugees and paying salaries for them by German government is perceived as a rise in German total demand.

As we mentioned, the German economy being sound and regulated, this temporary increase will reflect directly on economy through temporary increase in prices. This increase, in turn, will reflect positively on profits of the German producers. All expenditures on those refugees will go to German economy, because costs of food materials, different products, and other various services are mainly benefits for German companies (through increase in profits proportion), and German workers gain through increase in real incomes on the mid and long term.



The financial aids to refugees are considered as small Quantitative easing programs for German national economy.

## 2- Relationship between Consumption and Investment

As mentioned before, in sound and regulated economies, investment is affected directly by consumption (Demand) and consequently investment (supply) increases with high consumption and decreases with low consumption. Then, the increase in refugees will lead to an increase in consumption (Demand), and thus an increase in Investment. The following table No (1) shows the point clearly:

1( Table No

### Germany – Domestic Consumption & Investment Data

Year	2011	2012	2013	2014	2015	2016	2017
Consumption (annual variation in %)	1.3	1.0	0.6	0.9	1.9	2.1	1.8
Investment (annual variation in %)	7.2	-0.4	-1.3	3.5	2.2	3.1	3.3

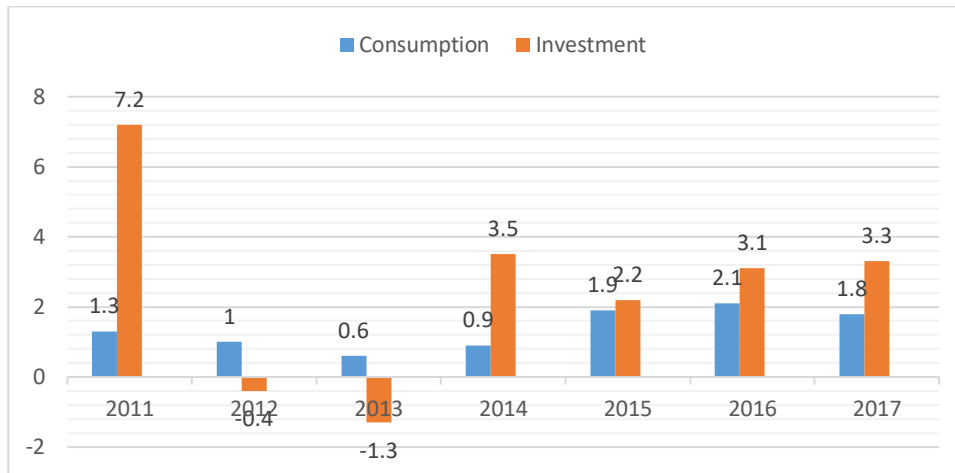
Source: <http://www.focus-economics.com/countries/germany>

We can represent table No. (1) in the following:



**Figure No. (1)**

**German Domestic Consumption & Investment Data**



**Source: researcher.**

In figure No. (1) we can see the range of change in investment according to the change in the consumption and the relation between them as proportional relation, i.e. either an increase or a decrease. This reflects strength and solidity of the German economy.

In table No. (1), and figure No. (1), we can see that positive variation by 1.3% in consumption makes variation in investment by 7.2% in 2011, and the decrease in variation of consumption by 1.0%, led to variation of investment with a decrease by -0.4% in 2012. In 2013, variation of consumption decreased to 0.6% leading to a decrease in variation of investment by -1.3%. In 2014, variation in consumption increased to 0.9%, therefore variation in investment increased to 3.5%. In 2015, variation in consumption increased to 1.9%, thus increasing variation in investment by 2.2%. In 2016, variation in consumption increased to 2.1%, thus increasing variation in investment by 3.1%. In 2017, variation in consumption increased to 1.8%, thus increasing variation in investment by 3.3%.

If we take variation in Investment According to the variation in Consumption (CIACC), we can see it was:



**Function No. (1)**

$$CIACC = \frac{7.2}{1.3} - \frac{0.4}{1.0} - \frac{1.3}{0.6} + \frac{3.5}{0.9} + \frac{2.2}{1.9} + \frac{3.1}{2.1} + \frac{3.3}{1.8}$$

The mean of Variation in seven Years Investment According to Variation in Consumption (AVIAVC) is as follows:

**Function No. (2)**

From

$$AVIAVC = \frac{5.54 - 0.4 - 2.17 + 3.89 + 1.16 + 1.48 + 1.83}{7} = 1.6$$

function **No. (2)** we can approve the strong relationship and strong response of investment to any change in consumption, either in increase or decrease. It means that the relation between them is a proportional relation, i.e., **any change in the consumption by 1% leads to change in the investment by 1.6%, and then change in the GDP.**

In light of the above, we can say that the German economy is sound and strong economy, because in poor and unregulated economies any increase in the demand will be reflected as an increase in the level of prices, and then increase in inflation rate, because the response of investment is very weak to the increasing in demand. This will lead to a decrease in the purchasing power of domestic currency, and real purchasing power of the citizens, and more economic crises and difficulties.

**3- Un-equilibrium**

In most advanced economies, authorities create un-equilibrium, or create inflation in the economy, especially by increasing demand against supply. Authorities really know that the rise in demand will reflect positively on investments and lead to an increase in supply, consequently an increase in GDP. This happens in many economic policies like, Quantitative Easing, and creating inflation (increasing money supply),... etc.

In accordance with the above, if we suppose that German economy received 1,000,000 refugees,



by simple calculations and according to the relationship between consumption and investment that we analyzed, if one refugee gets 400 Euros per month, the result will be:

$$1\,000\,000 \times 400 = 400\,000\,000 \text{ Euros per month.}$$

$$400\,000\,000 \times 12 = 4.8 \text{ billion Euros of consumption per year.}$$

According to the previous analysis and the response of investment by **Function No. (1)** to this new consumption will be as follows:

$$4,800,000,000 \times 1.6\% = 4,876,800,000 \text{ billion Euros of investment.}$$

**Table No. (2)**

**Germany Gross Domestic Product (GDP) (in billion euros)**

2011	2012	2013	2014	2015	2016	2017
2703.12	2758.26	2826.24	2932.47	3043.65	3144.05	3263.35

**Source:** <https://www.statista.com/statistics/295444/germany-gross-domestic-product/>

According to the German GDP in 2017, it was **3263.35 Billion USD**. This means that response of investment will reflect as increase in Germany GDP by the following function:

<b>76800000</b>	
<b>Increase in German GDP =</b>	<b>× 100 = 0.024%</b>
<b>326335000000</b>	

**Function No. (2)**

This means that the increase in GDP is by **(0.024%)** according to the involvement of 1,000,000 refugees in German economy.

**4- Representation of Un-equilibrium graphically:**

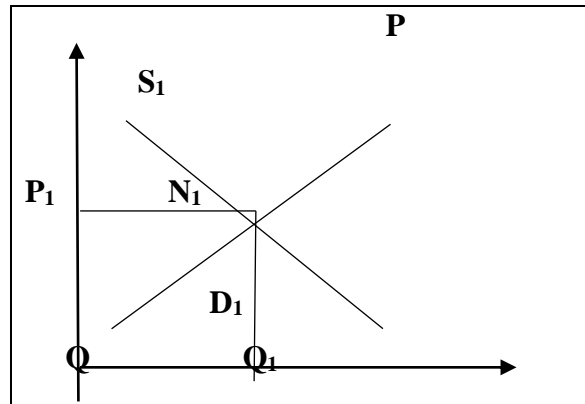
If the equilibrium between total supply and demand in German economy is as the **Figure (3)** before arrival of refugees shows,





**Figure (3)**

**Equilibrium of Total Supply and Demand in the point (N1) in German economy before adding the Demand of newcomers**

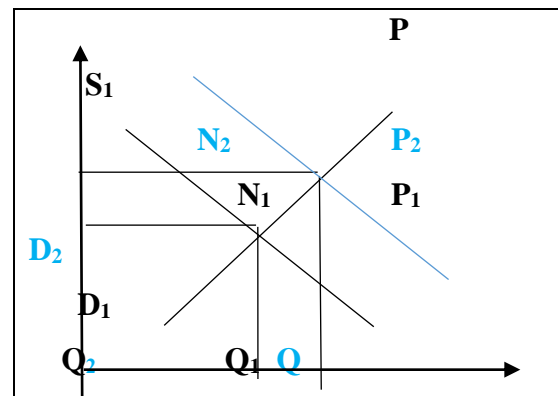


**Source: researcher.**

In the case of increasing demand in German economy because of the coming of the refugees, the prices will increase from (P1) to (P2), and the new point of equilibrium will become (N2) instead of (N1), as clear in **Figure (4)**.

**Figure No (4)**

**Supply and Demand equilibrium (N2) in German economy after adding the sudden demand because of newcomers**



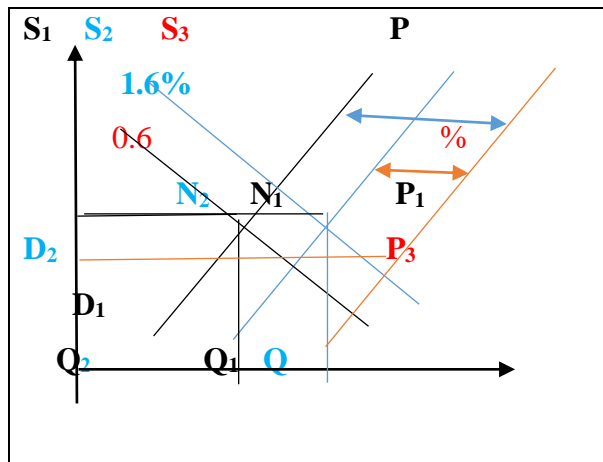


**Source: researcher.**

As a result of increase in consumption (demand), prices will increase from (P1) to (P2), then profits will increase, the response of investment (supply) will be very quick as we saw in the previous analysis, and the new point of equilibrium will become (N2) instead of (N1), as clear in **Figure No. (5)**.

**Figure No (5)**

**Equilibrium of New Supply and Demand (N2) in German economy after response of investment (supply) to sudden demand**



**Source: researcher.**

**Figure No. (5)** shows the return of prices to their previous level as a result of the increase in investment (increase in supply of goods and services), with a proportion of 1.6% in investment above the percentage of consumption as is shown previously, the new equilibrium point becomes (N2).

The increase in investment by 0.6% more than consumption in the range between (S2) the new investment, and (S3), the (0.6%) in investment is the surplus.



This surplus must be exported for the following reasons:

**First**, by maintaining prices from downfall to ( $P_3$ ) and creating losses in business sector.

**Second**, to maintain the profits of producers.

**Third**, increase the surplus in balance of payment as a result to exports increase, and then an increase in GDP.

**Second: conclusion:**

- 1- In fact, many of the asylum seekers - especially Syrians - are highly educated or skilled workers, including doctors, engineers, architects, and others.**
- 2- The costs of these qualifications among refugees are paid by home countries and German economy will get only the benefits.**
- 3- We can see that the problem of refugees is converted to an excellent opportunity for the German economy. We see German GDP grew by 1.7% in 2015, and by 1.9% in 2016, beating a 1.8% median estimate. Strongest in 5 Years. Germany's economic expansion during the last quarter may have accelerated more than analysts predicted as 2016 growth climbed to the fastest pace in five years.<sup>1</sup>**
- 4- Gross domestic product (GDP) expanded by about half a percent in the October-December period from the previous three months, when it grew 0.2%, according to the Federal Statistics Office. Economists forecast an increase of 0.4%, forecasts compiled by Bloomberg show.<sup>2</sup>**

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<sup>1</sup>- <http://www.foxbusiness.com/markets/2017/01/12/german-gdp-grew-1-9-in-2016-strongest-in-5-years.html>

<sup>2</sup>- <https://www.bloomberg.com/news/articles/2017-01-12/german-economic-growth-accelerated-in-2016-on-domestic-spending>



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- 2- <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/DE?display=graph>.
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