



Challenges to the Federal Reserve's Independence

Jacob Funk Kirkegaard discusses a controversial new law in Denmark that allows the immigration authorities to seize valuable items from refugees, a move aimed at slowing the rapid influx of migrants that some feel threatens the traditional welfare state.

Recorded January 28, 2016. © Peterson Institute for International Economics.

Pedro da Costa: I'm Pedro da Costa, editorial fellow here at the Peterson Institute for International Economics. And I'm joined by Jacob Kirkegaard, a senior fellow. And we're here to talk about Denmark's new legislation regarding immigration. They've significantly tightened their controls on immigration given the recent influx of migrants from all over the world but in particularly war-torn areas like Iraq and Syria. Could you talk about what the legislation entails first of all?

Jacob Kirkegaard: Sure. I mean there are basically two main components of this new reform package. One has to do with essentially sort of in a means testing way basically potentially seizing the values of the excess values of arriving migrants to potentially pay for their refugee stay in Denmark. There the rule is that if you have valuables above threshold level of about \$1500 excluding items of affection, however that is defined, then they can be potentially taken by the authorities to pay for the processing and your stay as an asylum-seeker.

Jacob Kirkegaard: I mean, there is the other component of the reform which is that you used to be eligible for family reunification if you were a refugee after one year. That period has now been extended to three years.

Pedro da Costa: I see.

Jacob Kirkegaard: Which of course is a pretty significant extension of that period.

Pedro da Costa: Sure.

Jacob Kirkegaard: I think it's important to say both of these measures are essentially things that the government is doing. Not just the government, but a wide broad majority in the Danish Parliament. They're doing to basically send the signal that if you choose to come to Denmark, because the border of Denmark is still largely open.

Jacob Kirkegaard: They haven't put a cap on number of refugees. They haven't put barbwire in the border or things like that. But they're basically sending out the signal that if you come, it's not going to be a bed of roses. That, of course, is meant to deter would-be migrants. Essentially in that way, it lowered the amount of migrants or refugee-seekers coming into Denmark.

Pedro da Costa: Now what is it likely to do to the outside world's perception of Denmark? Because people tend to see Nordic countries as welcoming places that have been, as you mentioned, have had their open doors to refugees. At least on the face of it, this sounds little bit perverse to tax people who are coming from places of struggle and to tax their whatever meager possessions they have to try to either pay for their cost or to deter them. Is this a reflection of a xenophobic wave in Denmark? Or is it a reflection of just, I guess, the logistics of dealing with large number of people that are coming in now?

Jacob Kirkegaard: I think it's mostly the latter. I mean, there's no doubt that part of the supporters of this law are supporting it for mostly xenophobic reasons. But I think the reason that it passes such a significant majority in parliament has to do with resources. Because basically this issue of asset is basically means testing. Which is a concept that is widely applied across any welfare state. And the idea here basically is that if you process a large number of personal assets, you are not eligible for public support.

Jacob Kirkegaard: It applies to the same way, if you're a Dane and you have a large bank account and you lose your job, you may or may not be eligible for a large number of traditional welfare services in Denmark. In some ironic way, this is basically applying some of the same principles to asylum-seekers.

Jacob Kirkegaard: Then we can debate what the threshold should be and what type of items should be confiscated or seized, but we should be very clear that this is not a law that has been passed to raise revenue in Denmark.

Pedro da Costa: It's more of a symbolic move.

Jacob Kirkegaard: Oh, absolutely. Because if you look at some of the other countries in Europe like Germany, the Netherlands and Switzerland that actually had such laws in place for a number of years. The amount of resources actually raised is miniscule. So this is all about sending the signal to refugees that, as I said, if you choose to come, there may or may not be hardship involved. And ironically, in terms of the risks, yes, there are certainly reputational risks to Denmark for this. But ironically, the more bad headlines the country gets in what you should say we'll let's call it liberal global media, the better. That's

probably what the government, in some ways, want. Because this is the way that they send the signal to would-be migrants that actually choosing Denmark as your final destination country might be a very tough call.

Pedro da Costa: So if they pass the buck to other areas, what are the ramifications for the way that the region itself is grappling with migration? I know you have your own set of proposals for how they should deal with the problem. But how does it affect both migration from the outside and internal movement within European borders?

Jacob Kirkegaard: Well certainly as a first order, there is a degree of passing the buck here because a lot of migrants that have come from say North Africa or the Middle East to Europe. They have to choose which country to go to and then this making it harder in Denmark, making it more likely that they'll go somewhere else. But I think it's also an important broader issue at play here which is this resource issue. Because this goes to the heart of why is it that the social Democrats in Denmark, the traditional central left proponents of the welfare state, had actually supported this law? And the reason is really in my opinion resources.

Because what's happening is that they have fundamentally come to the question or come to question whether or not the arrival of this number of refugees are fundamentally compatible with the comprehensive welfare state. Because the comprehensive welfare state which relies on very high taxes and very high benefit levels is predicated on very high employment rates. If you end up having people come to you as refugees or economic migrants and stay in the country not for six months or temporary, but permanently, integrating them and ensuring them that a very large percentage of them actually end up getting jobs.

And the high minimum wages that are prevailing in these countries is a very expensive proposition. Something you can also see if you look at the amount of money the country spends on refugees/asylum-seekers. Denmark and Sweden and the Nordic countries are way ahead of the European averages. So this is a real issue for people that want to have and see a comprehensive welfare state. They're basically increasingly saying, look, we choose to prioritize maintaining the welfare levels for our existing residents and natives as opposed to being welcoming to a very large number of immigrants.

Pedro da Costa: Yeah.

Jacob Kirkegaard: So you end up in this political situation that the central left traditionally quite open to immigration for reasons of resource scarcity basically have ended up supporting many of the same types of policies that you have seen right-wing's

xenophobic parties espousing for decades for basically traditionally nationalist and anti-immigrant reasons.

Pedro da Costa: That's fascinating that just a year after, it seemed that the European economic model is being tested because of currency cohesiveness issues. Now we have the migration element also added to the mill.

Jacob Kirkegaard: Absolutely. I think this one is much more worrisome. Because it's the whole issue of Grexit and the Euro area, I think, is largely been dealt with. But the problem here is that this migration issue could in my opinion actually lead to Grexit if you want.

Pedro da Costa: Because of common currency.

Jacob Kirkegaard: Grexit from the common currency was avoided ultimately over the course of 2015 because it turned out that there was a very significant public majority in Greece to want to stay in the Europe. But the problem is right now Greece risks being in the wrong place at the wrong time.

Pedro da Costa: In terms of border control.

Jacob Kirkegaard: In terms of its border situation. Because the rest of Europe, it's not politically sustainable to have the levels of migrants flowing to Europe that we've seen in 2015. If that continues in 2016, you're going to see very dramatic, in my opinion, political ramifications in 2017 where you have presidential elections in France, you have elections in Germany, and obviously, there are other elections. So mainstream political leaders in Europe are not going to allow that to pass. Last week, we had the head of the European Council and the current rotating president of the European Union. The Dutch Prime Minister said that we have a couple of months to deal with this. By this they meant restoring control to Europe's external border. Then the question is, where is that external border?

Pedro da Costa: No.

Jacob Kirkegaard: The Greece is in the very tough situation. They have a maritime border with Turkey. And they're basically being asked to do the impossible. Which is to-

Pedro da Costa: Cover the set of islands.

Jacob Kirkegaard: -cover a long set of islands from what is literally thousands of small boats coming across a very narrow stretch of sea which you can't really do unless you do it in ways that are clearly against European and civilized values.

Pedro da Costa: Yeah.

Jacob Kirkegaard: So the risk is, and there are serious proposals out there, is that well what Europe needs to do is to reestablish a southeastern land border instead. And the question is, where is that land border going to be? Because a land border, you can fortify it with barbwire. Like what Hungary did a couple of months ago. And you can physically keep people out that way.

Pedro da Costa: Yeah.

Jacob Kirkegaard: And if nothing happens in the next two or three months and we continue to see the level of inflow of migrants that we have seen through Turkey and to the rest of Europe, I think, that unfortunately maybe we're heading so that we get not a financial Grexit, but a physical Grexit. Where essentially the imposition of this type of fairly draconian physical border controls leaves Greece on the outside.

Pedro da Costa: Perilous times. Thank you so much Jacob and we'll be following it closely.

Jacob Kirkegaard: My pleasure.