

Refugee Crisis: Responses to Harness Economic Potential

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ABSTRACT

The refugee crisis has burgeoned into a humanitarian predicament with no end in sight. And yet, countries around the world have been shirking their responsibilities using the rhetoric of protecting economic and security interests of their native population. This paper analyses the potential economic benefits of refugees on the host country. It refutes common fears that refugees will take up local people's jobs and lower their wages. The paper argues that refugees can plug the missing links in labour supply which the most developed countries such as Germany and the US are facing today. It highlights both the short term and long term gains in economic growth the West can make if it makes a genuine attempt to integrate the refugees.

Suggestions are made regarding policies and measures that states should adopt to unlock the potential of refugees. The prospects of a public-private partnership which can turn the humanitarian crisis into an opportunity for all is also explored. Adequate institutional and business sector response can find sustainable and market based solutions that can convert this liability into an asset for the countries affected. The paper also highlights the role that private sector, with its comparative advantage in innovation and technology, can play in addressing the emergency. Adopting these policies can give the necessary boost that slowing economies and ageing societies in the West need today.

Keywords: refugees, economic benefits, policies, private sector, integration

Introduction

The world is reeling under the challenge of the biggest human displacement since the Second World War. The refugee crisis has burgeoned into a humanitarian predicament with no easy solution in sight. On the one hand, refugees are fleeing from persecution and violence in Syria, Iraq, Afghanistan and other conflict-ridden countries in West Asia and Africa; on the other hand, the European countries are bearing the brunt of an ever increasing influx of refugees. The precarious situation is pushing the capacity of European countries to its limit. Many countries have braced up to meet the challenge and provided the necessary refuge to the millions of oppressed people. At the same time, there has been a backlash against these efforts among the right wing political parties which are whipping up a political discourse against the refugees.

The United Nations High Commissioner for Refugees estimates that 59.5 million people were displaced forcibly in 2014; a figure that is expected to rise in the coming years. Our commitment

to respect all human beings as free and equal moral persons, presents the case for opening the borders to the displaced persons seeking a secure life. Article 14 of the Universal Declaration of Human Rights states that "Everyone has the right to seek and to enjoy in other countries asylum from persecution." The UN Convention on Refugees upholds the principle of non-refoulement which mandates that no one can return or expel a refugee against his or her will back to a territory where he or she fears threats to life or freedom.

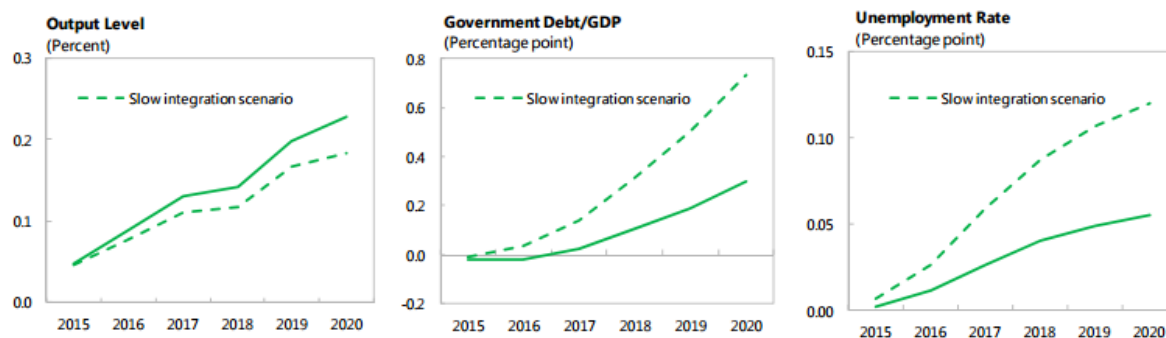
This paper analyses the potential economic benefits of refugees on the host country. In the backdrop of global financial crisis and rise in terrorism, a sudden and large influx of refugees can breed panic that refugees are an economic burden and dangerous to their security. This paper argues that such fears are actually misplaced and the economic benefits of refugees can far outweigh the costs with proper institutional guidance. It refutes common fears that refugees will take up local people's jobs and lower their wages. The paper argues that refugees can plug the missing links in labour supply which the most developed countries such as Germany and the US are facing today. It highlights both the short term and long term gains in economic growth the West can make if it makes a genuine attempt to integrate the refugees. If the states and their citizens realise that the refugees don't pose a threat but actually are an economic boon in disguise, then the necessary financial, institutional and humanitarian response can follow and help in resolving the refugee crisis.

The paper then makes suggestions regarding policies that states should adopt to unlock the economic potential of refugees. It highlights requisite institutional and business sector response that can find sustainable and market based solutions to convert this humanitarian crisis into an asset for the countries affected. The prospects of a public-private partnership, and the role that private sector with its comparative advantage in innovation and technology can play in addressing the emergency, is also explored. Adopting these policies can give the necessary boost that slowing economies and ageing societies in the West need today.

Economic Benefits of the Refugees

The world is suffering with slow economic growth because of complex structural and financial reasons. Refugees can help overcome some of these structural problems such as an ageing demography and can help to fill in the gaps in labour supply in sectors where the local population is unwilling to work. Refugees can also have a positive impact on the host economy by bringing down the prices of locally manufactured goods. It is thus in the self-interest of people to accept refugees as participants in the economy.

In the short run, there will be a modest increase in Gross Domestic Product (GDP) growth because of additional public spending for providing support and services to asylum seekers, such as housing, food, health and education. According to a study conducted by IMF, the level of GDP in European Union (EU) is likely to increase by about 0.05 % in 2015, 0.09 % in 2016 and 0.13 % in 2017 due to refugee intake (Aiyar et al., 2016). The effect will be more pronounced in the countries which are the key destination for refugees. By 2017, Austria, Sweden and Germany will witness the most significant impact as their GDP will rise by 0.5 percent, 0.4 percent and 0.3 percent respectively. In the long run, the effect of refugees on the economy will depend on the degree with which they are integrated in the labour market. By 2020, the level of GDP for EU could be 0.25 percent higher with Austria, Germany and Sweden experiencing a GDP increase between 0.5 and 1.1 percent. However, if refugees' integration into the labour force is not successful, their positive impact would reduce and government debt and unemployment rate will rise.



Sources: IMF staff estimates.

Figure 1 Impact of Refugee Inflow (Deviation from baseline scenario)

The argument often pitted against accepting refugees is that they will usurp local people's jobs and drag down wages. The past experience indicates that in case of both economic and humanitarian immigration, the adverse impact on employment and wage rate of the native people are limited and temporary. Most studies on waves of immigration in Europe and the US reveal that the average wages of native workers' respond little and the impact on unemployment is also limited (Peri, 2007). Investment usually increases in response to the increased aggregate demand and larger workforce that refugees create. Refugees have a multiplier effect as they expand the aggregate demand and production activity of the economy through the growth of market and labour. Immigrants and natives may work in different sectors of the labour market; hence one cannot be substituted by the other. In some instances, the inflow of immigrants drove native workers to specialize in more advanced skills and hence get better remuneration (Aiyar et al., 2016). Labour market integration of refugees may be slow in those countries in which unemployment is high. However, displaced people generally seek asylum in countries with low unemployment rates and better economic prospects.

The age structure of refugees is a major determinant of their net fiscal impact. Most of the refugees are young and eager to work. One-fourth of Syrian refugees have tertiary education. In Germany, 21% of the Syrian asylum seekers who arrived in 2013–14 had tertiary education, which is roughly the same as 23% of the native population with tertiary education. Eakin (2015) infers that as the cost of crossing border illegally is high, only the relatively richer and educated individuals are able to pay for the journey from countries like Syria to Europe and the US.

Refugees can plug the missing links in labour supply that many developed countries are facing. In the US, the shortage of truck drivers has increased to 48,000 as it involves long, arduous work hours, according to the American Trucking Associations (ATA). ATA believes that the trucking business needs to hire around 89,000 drivers per year over the next decade. With a shortage of trained employees and low-skilled employees willing to work, U.S. employers find it increasingly tough to find skilled and low skilled workers, according to the National Association for Business Economics' business conditions survey. This can put an upward pressure on wage rate. The reason why the local population is unwilling to work is because a large number of Americans, 100 million according to a recent Census Bureau study, survives on public assistance. The refugees can take up such jobs, thus plugging the loopholes in labour supply and help in increasing productivity of the economy.

Germany, at 6.4%, has its lowest unemployment level since 25 years. And yet, the employers' federation estimates that German economy needs and lacks 140,000 engineers, programmers and technicians. Likewise, the health and leisure sectors are short of qualified workers. In 2016, 40,000 training places across different sectors are projected to remain vacant. According to Prognos think-tank, the dearth of qualified workers can increase to 1.8 million in 2020. In UK,

the National Health Service has cautioned that accommodating fewer refugees can render hospitals severely understaffed (Buruma, 2015).

Resettled refugees can have a positive impact in regions struggling with population loss. Places such as Baltimore and Greater Cleveland, are ex-industrial cities and grappling with economic depression and shrinking tax revenues. Refugees can repopulate these regions. Refugees often reside in derelict areas and can revive them. According to *The Economist* (2015), research suggests that they have high motivation to give back and contribute to their host country. Refugees tend to be more entrepreneurial compared to the natives. Refugees are a source of increased demand for goods and services, and tax revenues for the state.

Decades of low birth rate and rising longevity has created the demographic problem of an ageing population in Europe. It is estimated that Europe's population will age rapidly over the next few decades. Eurostat estimates that in Europe, old age dependency ratio—the ratio between the number of persons aged 65 and above and the number of people in the working-age—will escalate from about 30 in 2015 to above 55 in 2050 in the absence of immigration. It will impose a huge burden on public finance, pension provisions and healthcare services (Clements et al., 2015). It will also reduce the economic potential of these countries. Estimates reveal that by 2020, the average GDP in the Nordic countries will be 2.5 percent higher than in a scenario in which there is no continuous migration (Ho and Shirono, 2015). Refugees could provide a counter to ageing societies and slowing economies. The new immigrants are young and have high fertility rates than the natives.

There are several examples of economic benefits that refugees entail. Semih Tumen from the Central Bank of Turkey studied the influence of 2.2 million Syrian refugees on the labour market of the border region of Turkey. In the formal sector, jobs for the local population have actually increased because of the stimulating effect of refugees on the economy. Consumer prices have declined as the increase in supply of informal workers generates labour cost advantages in the informal sector (Shiller, 2016). IMF report says that formal jobs with higher payment for the native workers have increased; average wage for natives has also risen.

Beyer (2016) conducted a study on labour market participation of refugees in Germany. Although the participation rate of immigrants is low initially, it converges with that of native population fully after 20 years. The gap in unemployment between the immigrants and natives diminishes with time. But still, the unemployment rate continues to be 3% higher among immigrants in the long term. However, German language skills and a German degree helps in closing the gap. German experience points out that immigrants contribute substantially to the economy but are faced with many hindrances in the labour market that are overcome only gradually.

The right understanding of economic implications should inform the political debate on whether refugees should be accepted. Though international experience demonstrates that immigrants have lower employment rates and wages as compared to the natives, these differences can be erased through effective integration policies. Slow integration is due to factors such as lack of language skills and barriers to employment. Accommodation of refugees into the formal labour market is contingent on whether they are granted work permits. Adopting right policies can open up the labour market to refugees. Labour market integration will also reduce the net fiscal cost related to the influx of asylum seekers. The sooner the refugees get employed, the more they will pay income tax and social security contributions, and thus help state finances.

Institutional and Business Sector Response to Harness the Benefits

Refugees can be highly valuable if they are permitted to live productive lives sans legal constraints and harassment. Host governments can facilitate positive outcomes without spending too much or without disadvantaging the host society. Effective integration policies such as education, housing and active labour market policies (ALMPs), involve costs. However, it can be set off by the taxes and other fiscal contributions paid by refugees.

A synergy between public and private sector can sponsor refugee resettlement programmes. ALMPs such as temporary exceptions to laws regarding minimum wages or wages at entry level or other labour market regulations for employers who hire refugees can overcome barriers to employment. Wage subsidies given to private employers have been successful in improving employment rate of immigrants. Such policies have been effective in Germany, Denmark and Austria (Caliendo and Künn, 2011). The governments can incentivize private fundraising for refugee resettlement through tax incentives to businesses incorporating refugees in their workforce. Such policies make hiring immigrants more attractive to employers. It is important to communicate to the native labour that such schemes are temporary in nature and the underlying motivation is to benefit the economy. This will minimize potential resentment against refugees.

Refugees as well as natives can tap the growing business opportunities created by increased population and economic activities by becoming entrepreneurs. The states should ease hurdles in starting a new business by adopting simpler regulatory and administrative procedures for start-ups, guaranteeing equal access to market, access to finance, and start-up support. Self-employment and entrepreneurship can be promoted through start-up funds for immigrant entrepreneurs. In Europe in 2013, 18 percent of total new microloans were given to immigrants and ethnic minorities (Aiyar et al., 2016). Refugees should be entitled to undertake self-employment activities under the same conditions as native people.

Sweden has initiated introduction program which has enabled the refugees to achieve relatively high rates of employment. It first assesses experience and education, and develops an introduction plan. The program includes training in language, employment preparedness and basic knowledge of Swedish society and culture. Tailored introductory programs and intensive personal and career counselling can overcome drawbacks such as lack of information and informal networks, and low language proficiency. Programmes for training, apprenticeship, skill bridging and work placement will go a long way in ensuring timely and gainful employment for the refugees. The lack of skill to search for jobs and absence of local informal networks hinder employment opportunities. The state should also minimise the restrictions on working during the processing phase of asylum application.

The displaced people's qualifications should be noted down during their registration for asylum. Collecting information on age, language skills, education, and work experience at the time of application for asylum can significantly accelerate their integration and help in formulating appropriate policies. Business sector can categorize the skills needed in their sectors, establish training and apprenticeships programs. (Marcus, 2015) The refugees are mostly young, educated (in case of Syrian refugees) and eager to integrate in the host society. They are willing to work harder for lesser money than locals. Businesses want the government to ease the rules and regulations on access to employment for refugees. States should guarantee the companies that trainees will not be deported.

Refugees should be given cross border mobility to help the EU adjust to asymmetric demands of labour. For example, cross-border migration is essential for economic adjustment within the

Nordic region. Reducing restrictions on their geographical mobility will enable them to move to where demand for labour is high (Aiyar et al., 2016). The approach and policies of states on asylum should be harmonized to make this possible.

Because of the political paralysis to bring reforms at national level, recently, the state of Michigan in the US passed a resolution urging the Congress to locate 25,000 Iraq asylum seekers in the state. Individuals, community groups, NGOs and businesses across the world are willing to support refugees both for charity and because it makes business sense. But their efforts are curtailed by legal restrictions imposed by the states on the number of refugees that can be accepted. By accepting more refugees and allowing private sponsorship of refugees, states can assist them without putting additional burden on tax payers' money. Canada is a leading example in facilitating private sponsorship of refugees (Corte, 2015).

The spectrum of public-private partnership can be expanded from the first stage of charity to the next stage of sustainable and marketable solutions. Private sector companies can use their comparative advantage in innovation and technology in addressing emergencies, as was highlighted by the World Humanitarian Summit of the UN. For example, in Lebanon, 81% of refugees rent their accommodation. Mobile applications can be used on the lines of the business model of Airbnb, a company which connects hosts wishing to rent their property with prospective guests (Cheung, 2015). Such information technology tools can help the refugees in better exchange of information regarding affordable housing or employment opportunities.

Businesses can also help to shape social attitude towards refugees. Public-facing and popular organizations can play an important role in this regard. In Europe, football clubs are taking initiative to promote a welcoming atmosphere. They have put up welcome banners, training camps, and even organised language lessons in case of Germany (Marcus, 2015). By addressing the problem on time, the governments and the business sector can turn the problem into an opportunity for all. Rapid integration in labour market will unlock the potential economic benefits of the refugee influx. It will also reduce social exclusion and marginalisation that refugees may face and maximize their contribution to the economy and public finance in the long run.

Assuaging the Fear of Refugees as a Threat to Security and Culture

Another argument given against the acceptance of refugees is that they pose a security threat for the host states. Media houses and right wing express the concern that influx of refugees can lead to an increase in law and order problems and terrorist activities. This apprehension gets aggravated in the backdrop of terrorist attacks that Europe has been facing in recent years. The host community's response can turn antagonistic and resentful because from their perspective, security problems negate the economic benefits of refugees. Such fears can be mitigated by creating an EU wide data base of biometric information such as fingerprints which can be used to monitor the refugees' activities as new members of the state. Appropriate information technology tools should be developed to collect and analyse data right at the entry point. However, such data should not be misused to discriminate against them and should be kept confidential to respect their privacy. The Eurodac database can be expanded to cover this concern.

It is argued that terrorist organizations are taking advantage of the refugee crisis and infiltrating Europe. Human Rights Watch, however, has argued that well-funded terrorist groups do not need to use dangerous immigration routes to infiltrate Europe. Anyone who can enter Europe merely by taking a plane is unlikely to risk his or her life by using a smuggler for transit. And even if terrorists are plotting to infiltrate through this route, stringent background checks can

weed them out. As Federica Mogherini, the EU's head of foreign affairs and security policy argues, the terrorist attacks in Europe in 2015 were not carried out by foreigners but by European citizens. A number of European citizens have also become Islamic State fighters. Blaming the refugees for terrorism is not empirically grounded. It will not help European security to panic about something that is not real.

The right wing parties use the rhetoric of increasing Islamisation of Europe and clash of civilisation thesis to flare up anti-refugee sentiment. They argue that the cultural values and practices of the refugees, most of them being Muslims, are incompatible with the 'Western culture' and pose a threat to it. Hence, to preserve the unity and coherence of the host culture, refugees must be kept out. A responsible leadership and media must counter such xenophobic and Islamophobic propaganda. Refugees constitute only 0.1 % of the entire EU's population and can hardly be designated as a threat to western civilisation.

Another argument that a number of European politicians and media houses have used to avert responsibility is to refer to the problem as a migrant crisis. People trying to reach Europe and the US have been described as economic migrants trying to get admission in richer countries for a better life. The choice of terminology is critical in influencing the perception of public and affects the lives and safety of displaced persons. Being a migrant implies a voluntary choice. The conflation of refugees with migrants absolves the states of their obligation to protect them and undermines public support to displaced persons. It is essential that the world recognises the problem as what it really is- a refugee crisis with people fleeing as a desperate attempt to save their lives.

Conclusion

By embracing refugees, host governments would realise that they are less of a burden and more a valuable asset for their economies. The host governments would also earn the kudos of human rights organisations and international public opinion which will restore their soft power waning in the face of the mess created by their external military intervention, which is a major cause of the crisis in the first place.

Response to the crisis must be multi-dimensional. It should address both the immediate needs and look for a long term solution in terms of a political transition in Syria and other conflict ridden countries. However, a truly comprehensive solution is possible only when the states muster the will power to accept refugees. This is not to argue that borders should be opened to everyone. Merkel's suggestion of quotas for different countries on refugee intake should be implemented. The rate of inflow of refugees should be regulated, and a strategy should be designed to ensure equitable sharing of responsibility among countries. Inefficient and inhumane international rules and institutions need to be reformed.

The refugee crisis is an unprecedented challenge, which calls for unprecedented actions. Europe and the US must protect the refugees and preserve the vision of the Western democracies based on open borders and open societies. A balanced approach is needed which focusses on reception as well as integration of the refugees. To leave millions to an unknown fate is something which the world's moral fibre cannot accept. As Angela Merkel noted, what the world is experiencing now will change the demography, economy and society of countries in both predictable and unpredictable ways. What we can determine is how that change happens.

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