

IMMIGRATION AND THE REFUGEE CRISIS – CAN EUROPE RISE TO THE CHALLENGE?

4.1 Introduction

Unrest in the Middle East and North Africa, including Syria, Iraq, Afghanistan and the Sahel region, is causing the massive displacement of people locally (within the affected countries), to neighbouring countries, as well as sending huge waves of refugees to Europe. By the end of 2015, 65.3 million individuals were displaced from their homes worldwide as a result of persecution, conflict, different forms of violence, or human rights violations (see UNHCR, 2016). Of this number, 41 million people were internally displaced; 21 million were refugees, and about 3 million were asylum seekers. In 2015, 1.3 million asylum applications were submitted to EU countries, with most applicants coming from Syria, Afghanistan and Iraq. Although various measures have somewhat reduced the refugee flows into the EU in 2016, the underlying migration pressure remains and the refugee crisis continues.

The number of displaced people is staggering and points to severe human suffering. Unfortunately, large displacements of people due to wars and natural catastrophes are regularly seen in different parts of the world. In a European context, the conflict in Bosnia in 1990s also produced a large displacement of people and waves of refugees. But this refugee wave seems somewhat different. The Bosnian conflict followed the fall of the Iron Curtain and was generally considered a European problem. Current conflicts are arising outside of Europe in culturally more distant societies. Thus, it is hard to make the case that this should be primarily seen as a European problem. Moreover, the flow of refugees, while currently comparable with developments in the 1990s at the peak of the Balkan conflicts, involve much broader and more populated areas of the world, thus raising the issue of absorption capacity.

Across Europe, and not just in the far-right spectrum of the political discourse, the mass immigration of culturally (and, often, visually) very different people fuels fears primarily related to the preservation of the European national identities and ways of life. Importantly, the current refugee crisis follows close on the heels of the financial crisis from which many European countries have not fully recovered and which has challenged social cohesion within Europe. Critical voices are being raised not only about refugee immigration, but, also, over worker migration and globalisation in general. Many traditional European political parties reacted slowly and, in the eyes of many, inadequately at the onset of the refugee crisis. This provided a significant opportunity for populists to start shaping the debate. Perhaps more than any other single issue, immigration has dominated the political landscape and an anti-immigration stance has become the battle cry of European populists.

The refugee wave is a humanitarian challenge calling for a cooperative solution across countries, and definitely among EU states. Yet developments seem to be moving in the opposite direction. A number of member states have taken their own non-cooperative routes. Attempts to allocate refugees across member countries have failed, and the Schengen arrangement is threatened. These events have exposed severe structural problems within the EU and thus further compounded the EU crisis.

In this chapter we try to paint the big picture with regard to migration before delving into specific issues related to the current crisis, and refugees in particular. To this end we begin by presenting some key facts on migration flows. We show that the number of asylum seekers in the leading EU countries has been cyclical in nature over the past 30 years. While current numbers of refugees are very large, they are still comparable with numbers experienced as a result of the conflict in Bosnia in the 1990s. We then present longer term population and migration forecasts and discuss the factors influencing migration flows. Next, we comment on some key aspects of humanitarian migration policies, and particularly their relevance to Europe. We then discuss the potential economic impact of the current refu-

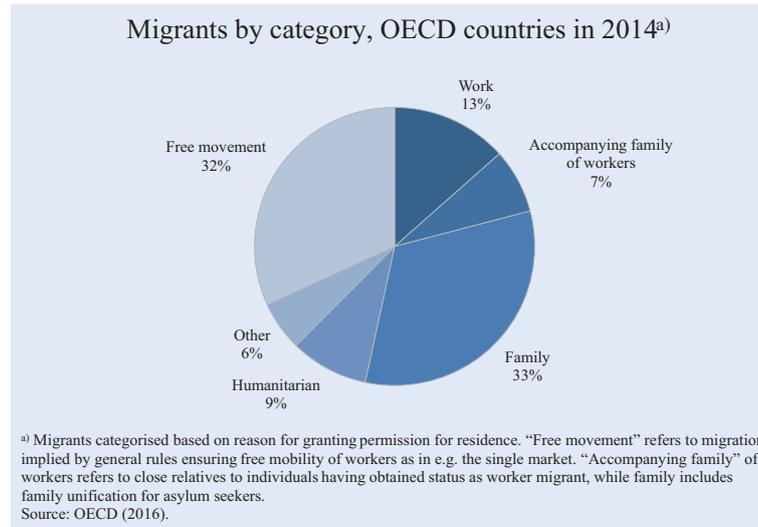
gee wave focusing, in particular, on its labour market effects and implications for public finances. Finally, we analyse important challenges and risks related to the current crisis and formulate some policy recommendations.

4.2 Migration patterns

Migration is one of the most important evolutionary mechanisms that have been shaping the development of humanity since its inception. Migrations are caused by a multitude of reasons. They can be largely voluntary, as in the case of worker migrants, or largely involuntary as in the case of people leaving conflict or persecution. One important trend is the movement of people from less developed to more developed economies. As a result, in many developed countries, the stock of foreign-born population is on the rise (see Figure 4.1). This can be seen as a natural consequence of globalisation i.e. an increase in the global exchange of capital, goods and labour.

Considering the various types of migration, work-induced migration constitutes a large part, also reflecting efforts to make worker migration easier. A prime example of such initiatives is the single labour market in the EU (see EEAG, 2015). Most countries have special immigration rules for workers, which make labour mobility easier for highly skilled and specialised types of labour. Migration due to humanitarian reasons

Figure 4.2



constitutes a relatively small share of total migration (around 9 percent, see Figure 4.2). However, if family unification is also included the total share is around 42 percent. Another important category of migrants are students (included in the “Other” category).

At a global level the number of displaced persons in the past decade has been around 40 million per year, or about 6 percent of the world population, but recent conflicts have caused an increase (see Figure 4.3). Most of the displaced persons move within their own country (so-called internal displacement), while only a minority leaves the country and becomes refugees or asylum seekers.

Figure 4.4 presents the evolution in the number of asylum applications to developed European countries in the period 1985–2015. The left panel presents the total number of asylum applications for EU-15 countries in aggregate and, for the purpose of comparison, for Germany alone. The right panel shows the number of asylum applications in five other developed European countries that have received large numbers of asylum seekers in the past. It is worth noting that when looking at sufficiently long time horizons, the number of people requesting asylum in developed European countries shows a cyclical trend, with Germany closely approximating the general European trend. The peaks are reached dur-

Figure 4.1

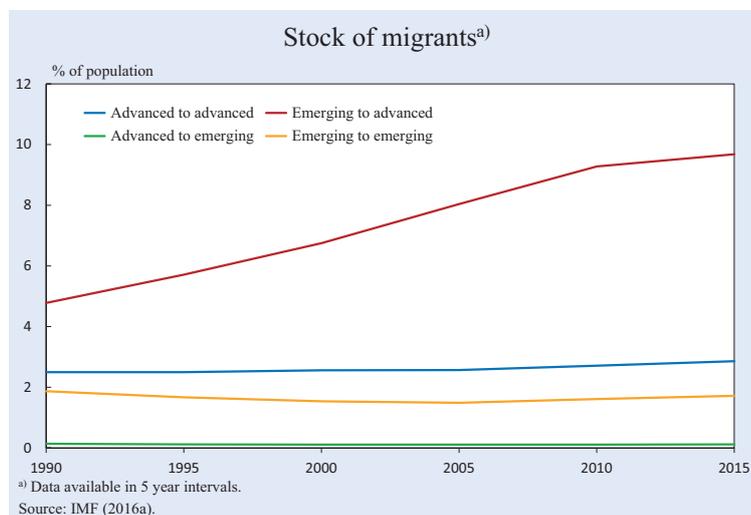
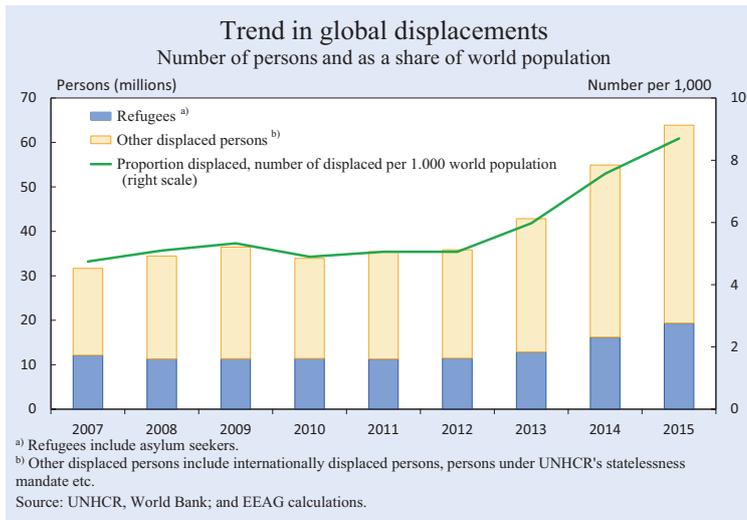


Figure 4.3

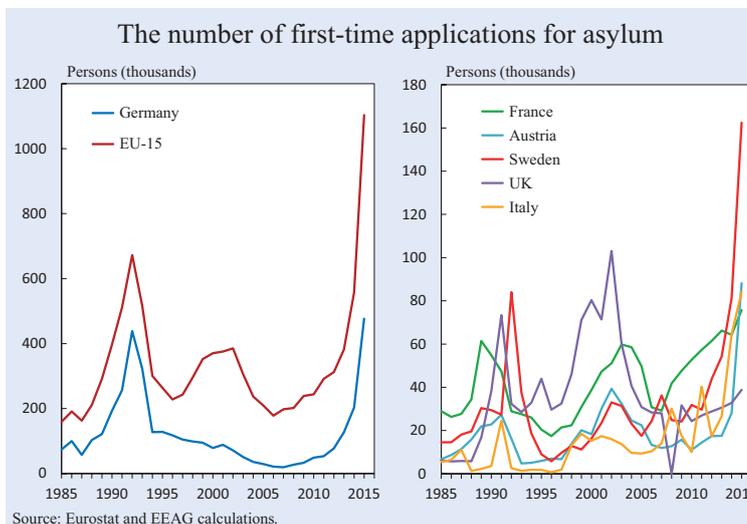


ing large conflicts: the wars in Bosnia, Kosovo and now the war in the Middle East. After peace was re-established, the numbers fell substantially. Having said that, the number of asylum applications in Germany in 2015 surpassed the previous all-time-high corresponding to the war in Bosnia, prompting serious concerns.

In the first half of 2016, the total number of first time asylum seekers in the EU was around 593 thousand (Figure 4.5). In terms of origin, the majority of asylum seekers came from war-torn areas: Syria (close to one third), Afghanistan (over 14 percent) and Iraq (close to 12 percent). Most refugees came from the same countries-of-origin in 2015 (Eurostat figures).

It is worth highlighting that, in terms of the number of applicants, Germany accepted the lion's share in 2015, with Hungary receiving the second largest num-

Figure 4.4



ber of applicants (Figure 4.6, left panel). In terms of the number of asylum seekers as a percentage of the host population, however, it is Hungary and Sweden that have assumed the heaviest burden (Figure 4.6, right panel).

These are large numbers. However, for Germany, the number of refugees as a percentage of the host population, is comparable with the flows registered during the turbulent 1990s. Of course, only a fraction of these people will, eventually, be granted migrant status and some of those

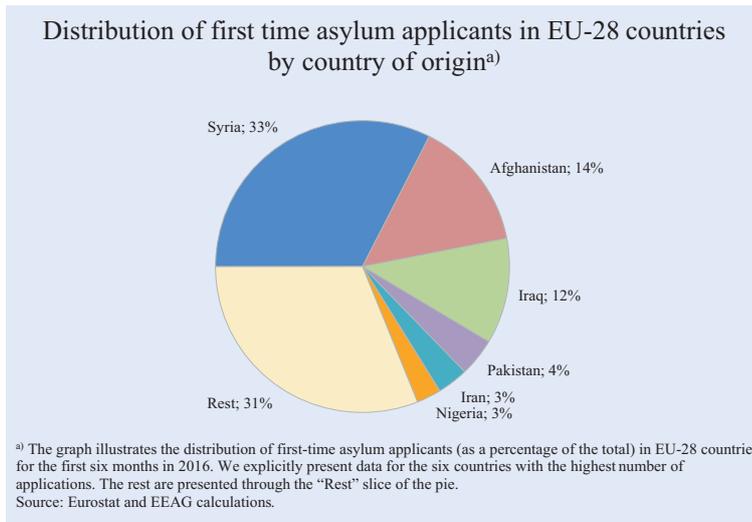
will inevitably either return home or move to another country.¹ Moreover, despite current developments in Europe, the fraction of the world population on the move from their own country of birth is fairly stable across time and is, on average, around 0.65 percent of the world population in any given five-year period (see, e.g. Abel, 2015). According to the same metric, from 1960 on, global migration reached its peak in the 1990s (and not, as one might think, in the 2000s). The next section discusses longer term population and migration trends using the best currently available estimates and forecasts.

4.3 Migration forecasts in the longer run

Forecasting future migration flows is both difficult and highly uncertain. The task would be particularly challenging if we were to try to forecast future movements of people for solely humanitarian reasons. This would involve predicting wars, civil conflicts, and natural catastrophes and somehow distinguishing between economic and other “non-humanitarian” causes of migration. In fact, migration flows are heavily affected by economic factors. Europe is a high income area and there are countries both to the

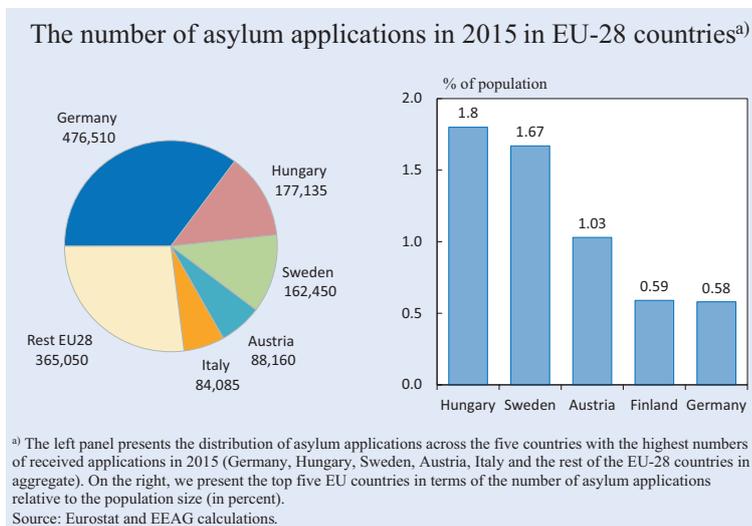
¹ There is a significant discrepancy across Europe in that regard. While Hungary has been speedily rejecting most of the asylum claims, this is not the case in Germany or Sweden (see Figure 4.14 below).

Figure 4.5



south and to the east of Europe with lower income levels and correspondingly lower living standards. Moreover, population growth in the south is, on average, higher, and the population is generally younger than in Europe. This creates sustained migration pressure towards Europe. While in theory it is possible to draw a distinction between migration driven by economic and humanitarian reasons, in practice it is far more difficult to do so. One reason is that people displaced due to a conflict or a catastrophe may not be able to return to their country of origin within the foreseeable future, and therefore may need to consider where to settle. In this case economic factors play an important role, even if migration may have initially been triggered by humanitarian reasons. Moreover, recent experience shows that some economically motivated migrants may try to take advantage of refugee flows in an attempt to enter Europe. Therefore, it may

Figure 4.6



in practice be difficult for administrators to distinguish between different migration types. Moreover, even if who falsely present themselves as refugees can be identified, it is not always possible to return them to their home countries (or, at least, not to do so swiftly). Although uncertainties are large, it is nevertheless important to consider possible future migration trends. As we shall see, while the precise type of migration may vary considerably across space and time, overall migration levels as fractions of the populations are relatively stable. This observation serves as a basis for the long-term forecasts that we use.

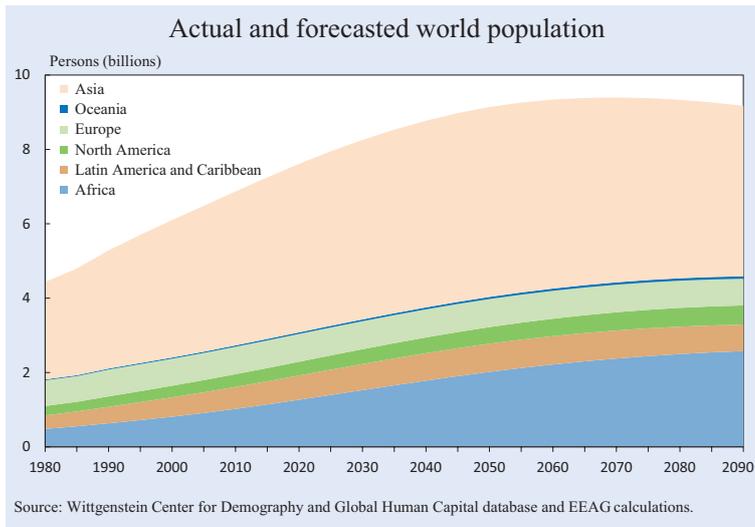
Since migrations invariably depend upon demographic factors, this is a natural starting point. Indeed, if we were not able to estimate, at least roughly, how many people will be on this planet and its continents at different points in time in the future, it would be all the more daunting to try to predict the future movement of people around the globe. Recently, significant progress has been made towards a better understanding of the key determinants of the global population dynamics (see Lutz et al., 2014). This study, a collaborative effort by leading international research institutions with the participation of over 550 population dynamics experts from all continents, documents a strong link between human capital development and long-term population dynamics. A number of socio-economic scenarios are constructed which take into account different future educational trends, their environmental impact etc. Our discussion primarily focuses on their base-case forecast.² This is a realistic, not overly optimistic nor overly pessimistic scenario. It incorporates, among others, the assumption that educational improvements prevalent around the globe in the past 20 to 30 years will continue more or less unchanged in the future.

of socio-economic scenarios are constructed which take into account different future educational trends, their environmental impact etc. Our discussion primarily focuses on their base-case forecast.² This is a realistic, not overly optimistic nor overly pessimistic scenario. It incorporates, among others, the assumption that educational improvements prevalent around the globe in the past 20 to 30 years will continue more or less unchanged in the future.

of socio-economic scenarios are constructed which take into account different future educational trends, their environmental impact etc. Our discussion primarily focuses on their base-case forecast.² This is a realistic, not overly optimistic nor overly pessimistic scenario. It incorporates, among others, the assumption that educational improvements prevalent around the globe in the past 20 to 30 years will continue more or less unchanged in the future.

² See socio-economic scenario S2 in Lutz et al. (2014).

Figure 4.7



The base-line projection of the world population is shown in Figure 4.7. According to this scenario, the world population will continue to grow until about 2050 and then slowly start to decline. Population growth is initially driven by fertility rates above the reproductive level in less developed parts of the globe (most notably in parts of Africa and less developed parts of Asia). Over time, however, fertility rates are expected to continue falling across the world to a level close to or below the reproductive level. Across the globe there is also a mirroring trend of longer life expectancy and population ageing. All these processes are actually well under way not only in developed parts of the world, but also in a growing number of developing countries.

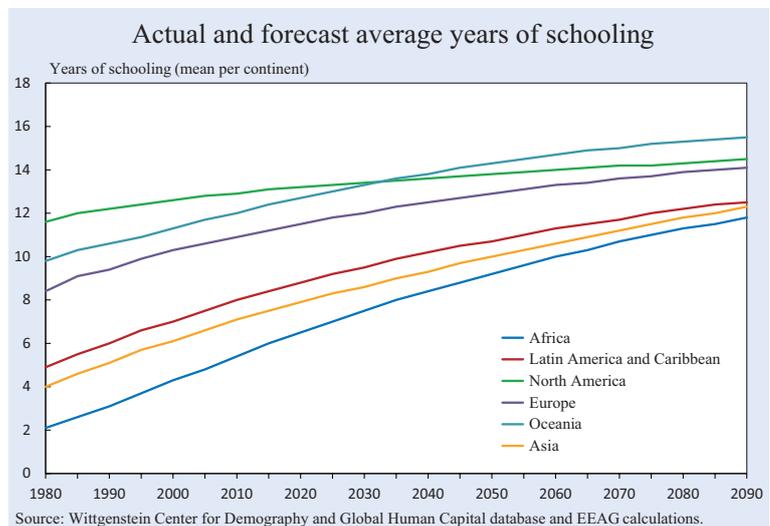
It is forecasted that the population of Africa will continue to grow both in absolute and in relative terms, accounting for around 28 percent of the world population by 2090. On the other hand, the populations of Asia, Europe and South and Central America are expected to start shrinking both in absolute and relative terms over the next two to three decades. By 2090, Asia will make up just under 50 percent of the world population, while Europe and Latin America will account for around 8 percent of the total respectively. The population of Oceania (including Australia) will continue to grow both in absolute numbers and as a share of the world population, but

it will remain below 1 percent of the total. The population of North America, by contrast, will moderately increase in terms of the number of people, but drop slightly in relative terms. By 2090, 5.6 percent of the total world population will live in North America.

An important driver behind the changes in fertility rates in the above projection is the improvement in education along trajectories observed in the past 20 to 30 years. Particularly significant in this respect is continuing improvement in female education

participation. It is worth noting that this scenario does not assume any spectacular additional educational push in the future with respect to current trends. As a result, Asia, Africa and South and Central America will continue to close the educational gap with respect to Europe, Oceania and North America (see Figure 4.8). By 2090, on average, the world population will have the equivalent of at least a high school education on all continents. Africa, in particular, will achieve today's European level of educational achievement by that time. More advanced countries will also make progress, albeit at a slower pace, reaching an average level of 15 years of education (roughly an equivalent of a college degree). An increase in education will, in turn, be associated with a significant drop in fertility rates across all continents, which will converge at levels below the reproduction level in most countries, including most of Africa.

Figure 4.8



A very important, but challenging issue is making a plausible forecast of future migration flows between countries. The task is made even more difficult by the fact that some countries collect rather detailed data on migration flows while others do not. However, statistics on stocks of migration exist and are more reliable and comparable across countries (see, for example, Abel, 2015, 2016). They can be used to make informed assessments of migration flows.³ In a recent and highly acclaimed article published in *Science*, Abel and Sander (2014) proposed a novel methodology for indirectly estimating migration flows. In their approach, immigration and emigration flows are estimated across all pairs of countries around the globe based on changes in migration stocks every five or ten years. These changes can be further corrected by estimating data on immigrant births and deaths. As a result, one obtains an estimation of flows that must have taken place between each pair of countries in a particular time period. Sander et al. (2013) describe how a simi-

³ Two principal sources of migration stock data are provided by the United Nations (every 10 years) and the World Bank (every 5 years).

lar method is applied to create forecasts of long term immigration flows presented in Lutz et al. (2014), see Box 4.1.

We primarily focus on the base-case scenario and demonstrate the extent of differences to other available scenarios in the case of a particular country, namely Germany. While the resulting projections are clearly quite uncertain, they are the best currently available source of medium to long-term base-case forecasts of global migration patterns. We focus on forecasts that have a direct bearing to Europe.⁴

⁴ The regions are defined as follows: (1) Developed Europe: Countries of the EU without former socialist countries, (2) Central and Eastern Europe (CEE): Poland, Slovakia, Hungary, Slovenia and Czech Republic, (3) South Eastern Europe (SEE): Moldova, Bulgaria, Romania, and Turkey, (4) Western Balkans: Albania, BiH, Croatia, Montenegro, FYR Macedonia, and Serbia (including Kosovo), (5) Baltic Countries: Estonia, Lithuania, Latvia, (6) Ex-USSR10: Countries of the former USSR, without Russia, Baltics, and Moldova, (7) North Africa: Algeria, Libya, Morocco, Tunisia, and Egypt, (8) Rest of Africa: All countries in Africa without countries of North Africa, (9) Select Asia: Afghanistan, Bangladesh, Iraq, Iran, Syria, Viet Nam, China, Lebanon, Pakistan, and India.

Box 4.1

Explanation of the migration forecasting method

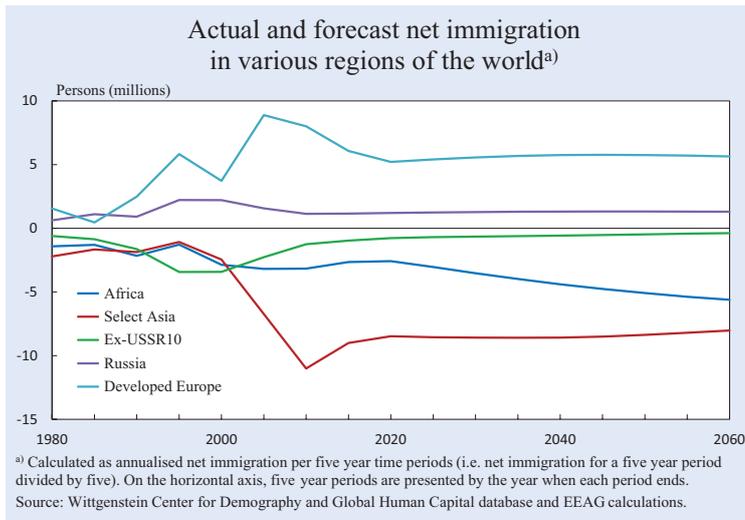
This box summarises the method of forecasting migration flows developed in Sander et al. (2013). Essentially, the authors first develop estimates for immigration and emigration (by sex and age) for each country for the period 2005–10. Migration to and from each country is projected using bi-regional models, i.e. by dividing the world into the target country and the rest of the world. They make the assumption of the constant probability of emigration and immigration across cohorts (sex and age by country) and estimate these transition probabilities based on period 2005–10 rates estimates (with some adjustments). Directional migration flows are then projected as the product of migration probabilities and the population in the origin country (for emigration) and the rest of the world (for immigration). In order to make a more plausible forecast of future migration patterns, a large group of international experts from all continents provided their views in a structured online survey. These views were further polished and finalised at a two-day live gathering of a representative group of experts. The experts identified seven factors that are most likely to heavily impact migration patterns in the future (adapted from Sander et al., 2013, Table 3):

- Remittances will become more important for the economic development of migrant-sending countries.
- Temporary labour migration will increasingly compensate for skills shortages in developed countries and thus reduce permanent migration.
- Major shifts in the economic performance of industrialised countries will significantly influence demand for migrants.
- Shifts in cohort size, especially related to the baby boom and bust, will play an important role in shaping international migration levels.
- The propensity to move abroad among 15 to 29 year olds will be particularly high in countries with a large “youth bulge”.
- International migration will mostly follow established paths and existing migrant networks.
- Political instability and oppression in African and Middle Eastern countries will result in more people seeking political asylum in democratic countries.

In their construction of the different scenarios the expert group decided that forecasting immigration and emigration for each individual country using a constant rate scenario (i.e. constant probabilities by country, age, and sex) estimated for the period 2005–10 coupled with the net impact of the above seven factors was preferable to using alternative methods (such as time series forecasts, turning point forecasting, etc.). After adjustments are made for 25 countries, which experienced rapid changes in migration rates over the past decade (like Spain, for example) that are unlikely to persist through 2060, these rates are assumed to stay constant until 2060. Based on these rates, they obtain a base-line forecast of the number of people immigrating and emigrating for each country for each five-year period. In addition, a number of alternative scenarios were elaborated based on the seven identified factors. In the Wittgenstein Center for Demography and Global Human Capital database, estimated and forecasted net migration data is available (immigration minus emigration) for each country and for different scenarios.¹

¹ In the database of the Wittgenstein Center for Demography and Global Human Capital used here there are a total of seven different scenarios corresponding to each SSP scenario. The base case scenario is denoted as SSP2. Note that their data makes forecasts all the way to 2100. However, as explained in Sander et al. (2013), they have made explicit forecasts only until 2060. Thereafter they merely assume gradual convergence to zero net immigration by 2100. Thus, we do not present forecasts after 2060.

Figure 4.9



Developed Europe and Russia are expected to continue to have positive net immigration. For developed Europe in particular, the trend is supposed to stabilise to just over a million people per year for the next 40 to 50 years (see Figure 4.9). This is not a small number. It is worth bearing in mind, however, that this figure includes net immigration from both within and outside of Europe (including developed Europe). These patterns are mirrored by net emigration patterns from select countries in Asia, Africa and the ex-USSR 10, which are expected to continue to be a source of emigration.

While net emigration from Africa will be driven both by the northern regions and the rest of Africa in the short run, it is sub-Saharan Africa that will be the largest net contributor to African emigration (around 1 million per year, on average) in the longer run.

Over time these flows imply an increasing number of the foreign-born population living in developed Europe. Since the population of developed Europe is not forecast to change much under the base-case scenario, this further implies an increasing share of the foreign-born population. In the case of Germany, the total population is expected to fall moderately in the base-case scenario. Forecasts would have predicted more dramatic drops without net immigration. The same is qualitatively true for Russia

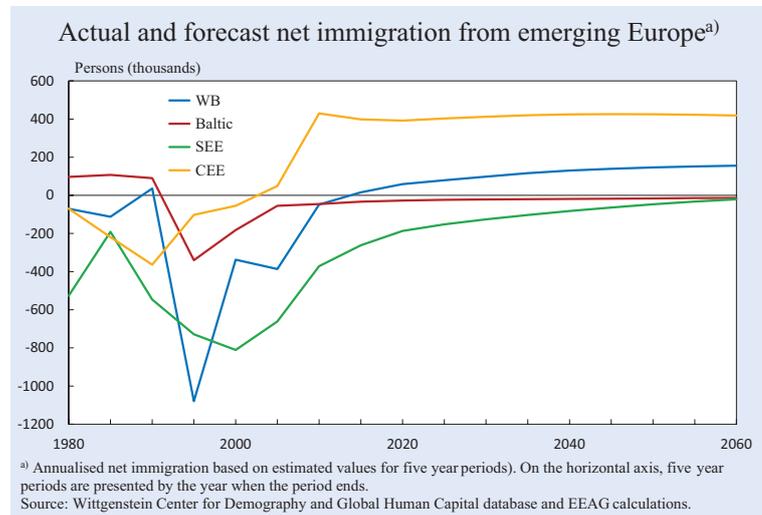
where the inflow of immigrants, primarily from the former USSR, is forecast to continue.

In the 1990s the countries of Eastern, South Eastern and Central Europe all experienced significant net emigration, with many people leaving for developed Europe, among other places (see Figure 4.10). From the 2000s onward, this trend fizzled out in Central and Eastern Europe. By the 2020s, the Western Balkans region, which had seen very significant net emigration in the 1990s due to the conflict in the former

Yugoslavia and the relatively poor state of the economy, should start seeing small, but positive net aggregate immigration flow. Only the South Eastern European countries, which include Moldova, Bulgaria, Romania and Turkey, will continue to see a net outflow of people, but emigration from these countries is projected to diminish over time. In most of these countries birth rates are already at or below the reproduction rates.

Immigration patterns for Afghanistan illustrate the fact that large numbers of people that leave a war-torn country (as in Afghanistan in the 1980s) may eventually return when and if peace is re-established. In the case of Afghanistan, this happened after the end of the Soviet occupation. New conflicts, i.e. the Allied war against the Taliban, did not bring, on a net basis, as many refugees as in the 1980s, but these are still rather large numbers. Whereas Afghan refugees pri-

Figure 4.10



marily stayed in Pakistan in the 1980s, they are currently more likely to move to Europe as parts of Pakistan are destabilised too. Going forward, the forecast predicts that underdeveloped Asian countries such as Afghanistan, Bangladesh, and Pakistan will continue to have a significant outflow of people. Large emerging Asian economies will also produce a significant number of migrants (India much more than China), but these numbers will be small compared with the sizes of these countries.

We now take a closer look at both past and forecast immigration into developed Europe. Figures 4.11 and 4.12 present, respectively, net immigration into five large and five smaller European economies that have historically experienced significant immigration in the past. It is worth noting that, based on estimates made for five-year periods, immigration into Germany was at its highest level in the 1990s, while immigration into Spain peaked in the early 2000s. Somewhat similar insights can also be drawn from immigration patterns in five smaller European economies (Belgium, Greece, Netherlands, Sweden and Portugal). Interestingly, it is Greece, and not the Netherlands or Sweden, that has had the highest recorded net immigration among these five countries (posted in the 1990s), both in terms of the number of people and as a fraction of the population of the host country. In the case of Greece, this was primarily driven by a very large influx of immigrants from Albania (see Cholezas and Tsakloglou, 2008).

Thus far we have considered the base-case scenario. Let us now briefly comment on alternative scenarios. For this purpose we fo-

Figure 4.11

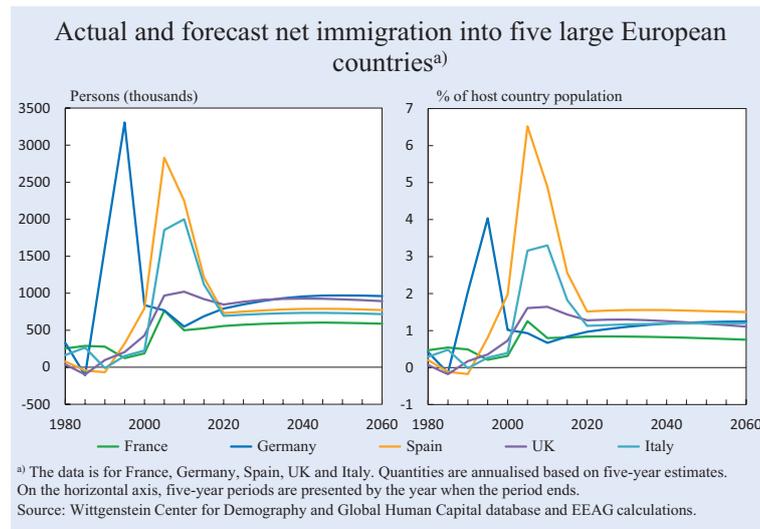


Figure 4.12

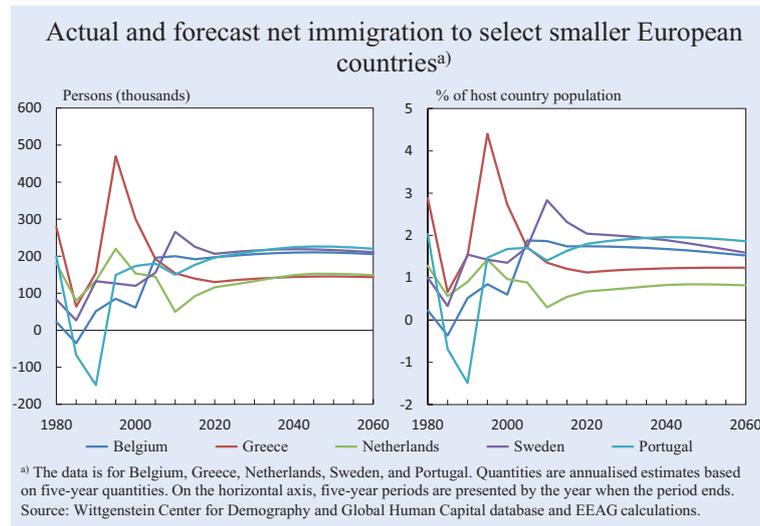
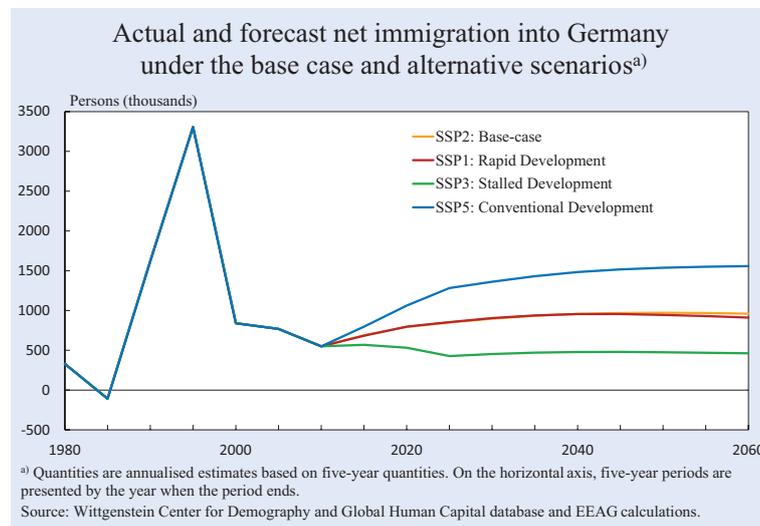


Figure 4.13



cus on the largest country in developed Europe, namely Germany (see Figure 4.13).

Let us note that, as expected, the different scenarios vary significantly. The base case scenario (red line) is bracketed between two more extreme cases.⁵ The highest level of immigration into Germany is forecast under scenario SSP5 (blue line) which, in turn, also predicts strong population growth in that period. On the other hand, scenario SSP3 (green line) predicts both a decline in immigration, as well as a strong decline in the German population. SSP1, by contrast, leads to a very similar net immigration forecast for Germany as the base-case scenario. In both of these cases, an increase in immigration is coupled with a small drop in the population of the country, leading to higher shares of foreign-born residents.

In short, migration pressures on developed Europe are likely to persist, possibly at levels higher (in terms of the number of people) than observed, on average, over the past decade. These numbers include all forms of migration, and worker migration accounts for a significant share. The migration pressure driven by humanitarian pressure will persist, although it is very difficult to precisely predict the timing, the source, and the receiving countries.

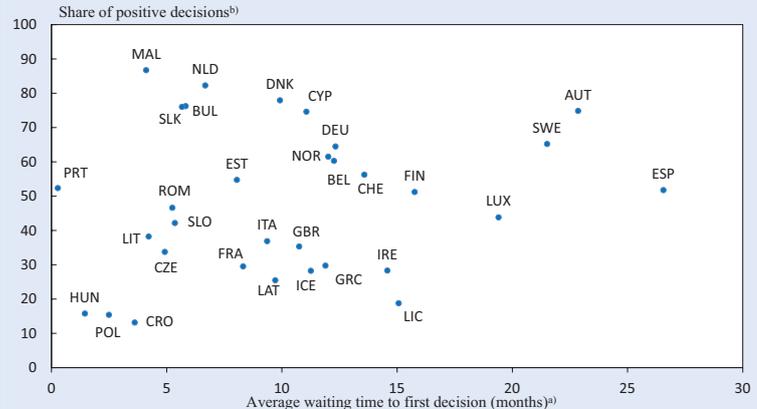
4.4 Humanitarian migration policies

The consequences of conflicts or natural catastrophes for the displacement of people depend on numerous factors including the type of event, its scale, and location. Displaced people may seek help in other parts of the country, or may ask for asylum in neighbouring or more distant countries. The specific routes taken depend on many factors including age, own resources, established networks and linguistic and political/cultural ties, as well as the humanitarian migration policies of potential host countries.

⁵ There are three other net immigration scenarios which we do not present here since they lead to very similar results as the base-case scenario.

Figure 4.14

Average waiting time for decisions on asylum applications, and the share of positive decisions, EU countries 2015–16



^{a)} Average waiting time is computed based on new applications for asylum and applications pending after one month, data 2016.1–2016.6, the average number is reported.

^{b)} Share of positive decisions is computed based on total decisions on quarterly data 2015.4–2016.2, the average number is reported.

Source: Eurostat and EEAG calculations.

Rules for individuals wanting to enter a country for humanitarian reasons are very complex, see Box 4.2. Although the overarching principles are clear and shared by most countries, there is considerable scope for differences in interpretation and implementation of the rules. Conventions define a right to apply for asylum, but not a state's obligation to offer protection to anyone who claims it.

Countries interpret admission criteria for asylum seekers with varying degrees of stringency. This also applies across EU countries, despite efforts to define common asylum and migration policies. There are cross-country differences in criteria for granting both temporary protection and permanent asylum. Moreover, countries have different interpretations of “safe origin countries” and “third safe countries”, and different waiting times, rules for family unification etc. (see e.g. European Union Agency for Fundamental Rights, 2016).

In particular, there are large differences in processing times and the share of approved asylum applications across EU countries (see Figure 4.14). Although various reasons may explain some of the observed cross-country differences, like the composition of the pool of asylum seekers, these differences are so large that they may also be seen as an indicator of the different policy stances across EU countries (Dustmann et al., 2016).

In setting migration rules there is a conflict between the ethical or humanitarian duty to help human beings in a difficult situation, and the right of citizens of recipient states to determine who enters their territory.

Box 4.2

Migration rules

Migration rules are complex. Some forms of migration are covered by international conventions while others are unilaterally decided upon at the country level. Under EU law, for example, there are 20 different categories of third-country nationals, each with different rights depending on their links to EU Member States or their need for protection. While the cases of students and migrant workers may be relatively simple (see EEAG, 2015 on the rules for worker migration within the EU), the rules applying to asylum seekers and family unification are detailed and complex.

There is a multilayer structure of migration rules and regulations including UN conventions, the European Social Charter (ESC) and the European Convention on Human Rights (ECHR) for the 47 member states of the Council of Europe (including all 28 EU countries), EU law for the EU member states, and finally national law. This is further complicated by the fact that not all countries have ratified or acceded to all of the ECHR Protocols; and not all EU member states are bound by all of the different pieces of EU legislation in the field of asylum, border management and immigration (for an overview see, for example, European Union Agency for Fundamental Rights, 2016). Moreover, international conventions leave room for different national interpretations and approaches. This further adds to the complexity of the problem.

The 1951 United Nations Convention (“Geneva Convention”) relating to the Status of Refugees and the 1967 Protocol (“Refugee Convention”) is the primary framework for international refugee protection. To date, 142 countries have signed the two. The Geneva Convention defines a refugee as a person who has a:¹

“Well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country; or who, not having a nationality and being outside the country of his former habitual residence as a result of such events, is unable or, owing to such fear, is unwilling to return to it.”

The convention was originally limited to persons affected by events within Europe, but the 1967 protocol made coverage universal. Originally, the convention applied to individual persecution, but it is now interpreted to apply more widely to persons leaving their country due to wars and conflicts, and where the country of origin is unable to provide protection. Today this is also interpreted to include persons at risk of persecution for reasons of gender and sexual orientation or identification.

The two key parts of the convention are the right to seek asylum and be granted asylum if the conditions are satisfied, and the principle of non-refoulement. The latter prohibits states from returning a refugee or asylum seeker to territories where their life or freedom would be threatened, or where they may be subject to inhuman treatment or punishment.

The Geneva Convention does not stipulate the precise criteria that should be used to judge whether a person should be granted asylum, or the rights of refugees lawfully staying in a country, which leaves scope for differences in interpretation and implementation. This particularly applies to whether a temporary or permanent permit of residence is granted. For an overview, see European Union Agency for Fundamental Rights (2016).

The EU asylum acquis comprises intergovernmental agreements, regulations and directives related to asylum in the EU (although not all EU members are bound by all elements of the asylum acquis). The Common European Asylum System (CEAS) aims to establish common rules for asylum seekers across EU countries. Main pillars of the system are (i) The Dublin Regulation stipulating that the country of first arrival is usually responsible for the examination of an asylum request, (ii) Eurodac fingerprinting database, (iii) The Asylum Procedures Directive aiming at harmonising asylum procedures, (iv) the Qualification Directive aiming at defining common criteria for granting protection and stipulating the rights of asylum seekers, (v) The Reception Conditions Directive aimed at setting minimum standards for living conditions, and (vi) the European Asylum Support Office to support cooperation among member states on asylum policy.

Various policy initiatives have been implemented to strengthen EU cooperation on refugee policies. Interestingly, a directive on “Temporary protection in the event of a mass influx of displaced” was adopted in 2001, but was never implemented. The main idea was to set up a system that could offer temporary protection in case of mass refugee waves. In response to the recent refugee wave, the Commission has presented proposals to reform CEAS where the directive is replaced by a regulation (a regulation is binding for member countries, while a directive is not) to (i) simplify, clarify, and shorten asylum procedures, (ii) ensure common guarantees for asylum seekers, (iii) tighten rules to combat abuse and (iv) harmonise rules on safe countries (see European Commission, 2016).

¹ Article 1A(2).

The latter may become an important issue if large scale immigration significantly challenges a society economically and/or culturally. This is clearly a very difficult issue, since there is no counter-factual and the argument can be used to defend anti-immigration policies and stir up populism.

To deter asylum seekers, a country may adopt a slow and uncertain procedure for handling applications, granting family unification etc. At the same time, it is well-established that long and uncertain decision times are a deterrent to subsequent integration into society, which also applies to the labour market (OECD, 2016). There is therefore a trade-off between deterring entry and promoting the integration of those granted asylum.

As argued above, it is not always easy to draw a clear distinction between a refugee and an economic migrant, since there are multiple possible reasons for migration. Importantly, informational asymmetries exist between an applicant and asylum administrators. In designing migration policies one also faces the dilemma that those making it to the border (in case of long-distance conflicts) are selected among the displaced people and seldom include those that need protection the most, i.e. the weakest segment of the population. A further problem is that, even when asylum applications are declined, it may not always be straightforward to return migrants (see Box 4.2).

Refugee policies are a prime example of a policy area calling for international harmonisation and coopera-

tion, not least within the EU. The root problem is a humanitarian one for which all countries share a responsibility. Moreover, in an EU context, the burden should not rest primarily on countries at the EU's external border and must be equitably shared. This does not necessarily imply that refugees should be distributed proportionally across countries, but that there should be a common admittance policy and clear principles for sharing the burden. Common admittance criteria make sense since, at least within the Schengen zone, once a refugee is admitted into one European country s/he effectively obtains the right to move to any other member state. Non-cooperative policies whereby single countries adopt their own policies in an attempt to lower refugee pressures lead to negative spill-overs to neighbouring countries, increase the total costs of managing refugee flows and may cause "rule speculation" or "regulatory arbitrage" among prospective refugees.

All of this weighs in favour of a common EU response to the refugee crisis. However, such a response has failed to materialise to date. Paradoxically, the EU adopted a Temporary Protection Directive back in 2001 with harmonised "minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof".⁶ This directive is specifically intended to deal with possible cases of mass arrivals into the EU of foreign nationals who cannot return to their countries, particularly due to a war, violence or human rights violations. However, the Directive has never been implemented. While the Directive was prompted by the refugee wave in the early 1990s following the conflicts in the Balkans, the consequences of failing to make progress in this area have become clearly apparent in recent years.

4.5 Economic impact of migration

The current influx of refugees into Europe has triggered lively discussions about the potential impact of immigration on the economic welfare, security, and culture of the host nations. Large-scale immigration has a dramatic impact on the source countries too.

⁶ European Union, "The Directive on Temporary Protection in the Event of a Mass Influx of Displaced Persons," Council Directive 2001/55/EC, 20 July 2001, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3A133124>.

This section focuses on the economic impact of immigration. It is worth noting that immigration has prominently featured in the European economy for some time now. According to a recent OECD study (OECD, 2014), migrants account for around 70 percent of the increase in the workforce in Europe in the past ten years (in the US the corresponding number is 47 percent). Overall, migrants work both in fast growing and in declining sectors of the economy, filling important niches. How much migrants contribute to the host economy depends, unsurprisingly, on the structure of the host economy itself, as well as on the migrants' educational level, the ways in which they immigrated into the country, their knowledge of the language of the host country and other factors.

In assessing the overall economic effects of migration it is crucial to distinguish between the different types of migration. Worker migration driven by differences in wages and thus productivity allows a potentially better allocation of resources and is, therefore, a possible source of welfare gains, although it is associated with distributional effects that create winners and losers. However, migration also involves entitlement to social arrangements, which in itself affect the economic implications, but may also impact migration patterns (see also EEAG, 2015). Admission of migrants on humanitarian grounds is clearly not motivated by economic concerns in the first place, but its economic consequences are, of course, important for the host countries.

We focus the discussion of the economic impact of migration primarily on aggregate measures such as production, the labour market and public finances. The effects in these three dimensions are closely inter-related; and a common denominator is the employment level of immigrants relative to the employment level of the population in the host country.

4.5.1 Production and income

When discussing the effects of immigration on production and income, it is important to distinguish between effects on levels and on per capita values. If, for example, the labour force increases due to immigration, then GDP is likely to increase; but this does not necessarily imply that GDP per capita will increase. GDP per capita can be decomposed as average value added per working hours times average working hours. The basic accounting principle therefore tells us

that per capita GDP increases in response to immigration if immigrants either have higher productivity and/or work more than the population on average. Over time more complicated and subtle effects may arise if immigration affects the average productivity level in society, which clearly depends on the type of immigrants in question.

This reasoning immediately leads to a general point. It is difficult to make general statements on the effects of immigration, since it depends not only on the level but also on its composition (students, worker migrants, refugees, family unification etc.). Immigrants who can bring specialised knowledge and enter the labour market directly, clearly have different effects than immigrants with low qualifications who have difficulties finding a job. The heterogeneity implies that the composition of a given number of immigrants is crucial to their economic effects; and it is impossible to make general unconditional statements on the economic effects of immigration.

This is also clear from studies that find an ambiguous link between migration and economic growth. On one hand, migrants and, especially, high-skilled migrants, can positively impact human capital formation (less so in the case of refugees from countries with lower levels of education). On the other hand, with an increase in the number of people, capital per worker is mechanically reduced. On the whole, Boubtane and Dumont (2013) show that for a sample of 22 OECD countries between 1986 and 2006, the effect of immigration on economic growth was positive, but small. Namely, an increase of 50 percent in net migration of the foreign-born generated less than one tenth of a percentage-point of variation in productivity growth. As this result includes countries with highly selective skill-based immigration, the current influx of refugees is, at best, going to have very small positive impact on productivity. Münz et al. (2006) confirm that the impact of immigration on growth heavily depends on their labour market performance and is heterogeneous across countries. Furthermore, they find that immigration has a positive effect on demography and ageing, but will not alone resolve the financial challenges associated with ageing. They also find evidence that immigration has a small, but positive impact on the trade relations between migrants' countries of origin and host countries. This is demonstrated, in particular, in the case of the UK and Spain. The remittances represent a drain on the balance of payments for the host coun-

tries, but they may support the EU's export of goods in source countries too.

The above refers to the structural effects of immigration. In the short run, an influx of immigrants may induce a more expansionary fiscal policy. Many European countries have increased public spending in order to process asylum applications and secure conditions for the stay of refugees while their applications are decided upon. Both the EU and European national governments also provide some support to countries of origin, as well as to those countries through which refugees pass.

The OECD reports that Germany has projected an additional 0.5 percent of GDP per annum of public spending in 2016 and 2017 in order to meet the initial needs of the asylum seekers and to integrate them into the labour market (OECD, 2015). Austria allocated them 0.3 percent and Sweden 0.9 percent of their GDP in 2016. The Turkish government has provided aid to Syrian refugees in Turkey since 2011, which was worth the equivalent of 0.8 percent of GDP in 2014.

In the short run, additional public spending is likely to act as a demand stimulus, especially in countries like Germany, Sweden and Austria, which have the largest refugee populations. In 2016 and 2017, the additional spending could boost aggregate demand in the European economy by about 0.1 to 0.2 percent of GDP (this is an estimate that appears both in OECD and IMF reports).

4.5.2 Labour market

The labour market aspects of immigrants are essential. The ability to be self-supporting is in itself of importance, but it is also crucial for integration into the society at large, besides its obvious economic implications.

The likelihood of immigrants finding employment clearly depends on both labour market structures and institutions, as well as on the personal attributes of the immigrant including their education, skills, experience, language proficiency etc. Moreover, norms and gender roles may play a role when families from cultures where the man holds the breadwinner role enter countries with a different gender balance, and where the labour market participation rates of women are on par with those of men.

The fact that most countries have more flexible immigration rules for highly-skilled individuals clearly reflects their interest in attracting such types of labour. Highly-skilled people can integrate into the labour market more easily. Humanitarian immigrants, on the other hand, often come from low-income countries and therefore tend to be less educated than the population in the host country. In this way, large numbers of refugees tend to increase supply of low/less-skilled labour. Labour market institutions and structures influence how this affects employment and wages. In labour markets with relatively high minimum wages in particular, it may be difficult for immigrants to find jobs, while in others with a more flexible wage setting, job-finding is relatively easier, but at the risk of becoming the working-poor. In addition, there are issues in relation to recognition of skills and possible discrimination in the job application process.

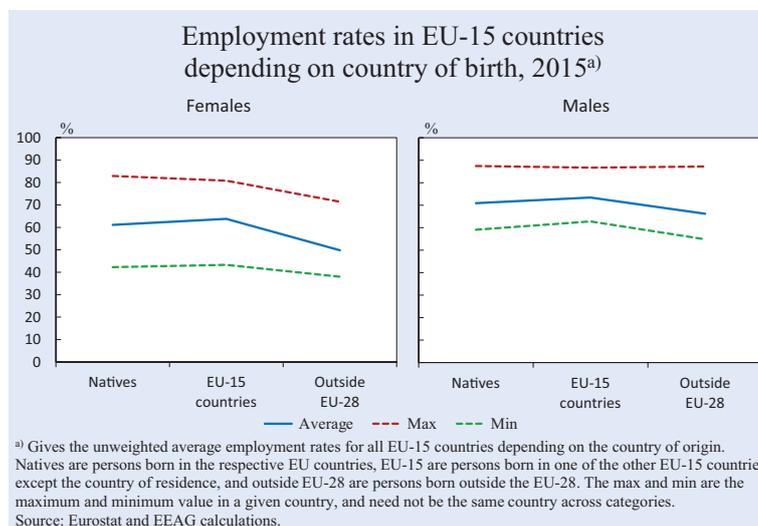
The difference in employment levels for migrants are illustrated in Figure 4.15, which shows employment rates for men and women for natives and migrants from EU-15 countries and outside the EU-28 countries. Firstly, the employment rate for migrants from EU-15 countries is on par with that of the native population in most countries, reflecting the fact that these migrants are predominantly worker migrants. Secondly, for migrants from outside EU-28 employment rates are generally lower, especially for women, than for natives; reflecting the fact that a significant share of those immigrants enter due to asylum and family unification. At the same time, the differences across countries are also large, reflecting both different labour market structures and differences in the composition of immigrants. The aggregate numbers

reported in Figure 4.15 conceal differences depending on the reason for residence (work or refugee) and their country of origin. Employment rates among refugees are lower than those among natives in all EU countries, and the gap is particular large for women, although it tends to decrease with the duration of the residence period (see e.g. Dumont et al., 2016).

The labour market challenges and tensions created by immigration are intimately related to the increase in the supply of low-skilled labour. Globalisation and technological changes are known to create so-called skill-biased changes, implying that demand for low/less skilled labour is declining in high-income countries. In response to this, countries focus on improving the skill level of the work-force, to support high employment and an acceptable wage distribution – the race between technology and education. The tension from immigration thus arises from the fact that it tends to reinforce the skill-bias problem by increasing the supply of low/less skilled labour. This challenges labour market policies. It is also a source of social tension, since groups already under pressure find that they carry a disproportionately large share of the adjustment burden in terms of further pressure on job possibilities and wages, which in turn gives rise to the sentiment that: “they are taking away our jobs”.

Considering in more detail the issue of labour market entry of immigrants, the speed and quality of integration of refugees into the labour market of the host country is important for both the short and the longer-term costs of the refugee influx. Significant factors are labour market options for asylum seekers while their applications are being processed, and should they receive a positive response to their asylum claim. Annex I on p. 41 of the recent IMF report on the refugee crisis in Europe (see IMF, 2016b) features a comparison of asylum rules for Italy, the UK, Germany, and Sweden. Differences across countries are quite substantial. While in Sweden asylum seekers are allowed, under certain conditions, to work right away without a working permit, in the other three countries a working permit is required. In Italy, it is received within two months after initially applying for asylum and is renewed every six months. Im-

Figure 4.15



portantly, no restrictions are posed when searching for employment. In Germany, a work permit may be received three months after registering as a refugee. However, employers must prove that they were not able to find qualified German nationals, EU citizens or recognised refugees to fill the position in question. This is a serious barrier to early legal entry to the labour market in the application process. It has to be noted that this restriction does not apply to professions with labour shortages and it is waived after 15 months of residence. In the UK, the policy towards the labour rights of refugees is even more restrictive than in Germany. Namely, a work permit can only be obtained after one year and only in areas where labour bottlenecks exist.

Obviously, it is not enough to allow refugees to work. It is important that they in fact have those skills needed in the host economy and that businesses have incentives to hire them. One of the key problems is the lack of knowledge of the host country's language and/or the lack of appropriate training. Providing language and professional training for genuine refugees is clearly an important task of a host government. Let us compare the four countries cited above once again. Schooling of refugee children is compulsory up to the age of 15 in Germany and up to the age of 16 in Italy, Sweden, and the UK. In Sweden, children between 16 and 19 years of age often have to attend a preparatory course in Swedish and other core subjects before they can receive vocational training.

It is hard to estimate the skill structure of the current wave of refugees. One way to get a very approximate handle on it is to look at the percent of people that are

enrolled into tertiary education in countries from which many of the current refugees originate.

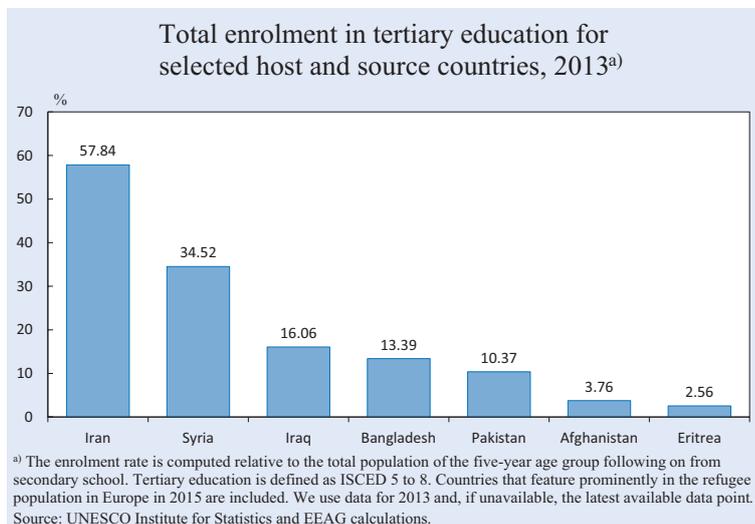
According to this criterion, Iranians and Syrians are the most educated among the sample countries, while the least educated, on average, are likely to be refugees from Afghanistan and Eritrea. Of course, a person's level of education is an individual characteristic. However, Figure 4.16 can, together with the national composition of the refugee population, provide at least a clue as to how well current refugees might integrate into a host economy.

Even if legal constraints for early employment are eliminated, important impediments for hiring low skilled refugees remain such as high entry wages and other entry barriers. Apart from lifting formal restrictions on working during the asylum process, it may, therefore, also be helpful to introduce some measures that provide incentives to hire refugees. Such measures could include wage subsidies to private employers or a temporary exemption of payment of the minimum or entry wages (see Sinn, 2015 and IMF, 2016b). It is important that welfare benefits for refugees are not such as to discourage them from actively searching for a job. Allowing those asylum seekers that found a job to switch their status to an economic migrant (as, for example, is the case in Sweden) may provide a good incentive for such individuals to look for work, instead of relying on welfare benefits.

One important worry is that the large influx of immigrants will invariably pool down the wages of the native workers. Several studies have addressed this issue in the past. Kerr and Kerr (2011) survey a large body

of the empirical literature on the topic of the labour impact of immigration (see also EEAG, 2015). As expected, they find that immigrants in Europe, at entry, have lower employment rates and lower wages than natives. These differences diminish over the duration of an immigrant's stay in the host country, but do not entirely disappear. On the other hand, they also find that immigrants, on aggregate, have a small effect on labour market opportunities for natives, with the exception of less-educated natives and, especially, former im-

Figure 4.16



migrants. This is consistent with the findings of many other authors.

Sinn (2015) argues that the current flow of refugees into Germany is likely to have an adverse effect on people with lower education and on former immigrants. On the other hand, it could be beneficial to high-skilled workers who may benefit from a reduction in costs for many services that can be performed by the new immigrants. This is similar to the US experience: there, a large flow of workers from south of the border is keeping wage pressures down in farming and several other industries. It is worth noting that in the US, businesses often use undocumented immigrants in order to further lower their labour costs. The same situation was observed in Greece in the late 1990s and early 2000s, where illegal Albanian immigrants mostly filled cheap labour demand (see Cholezas and Tsakoglou, 2008). Previously outlined measures should help to prevent the widespread use of refugees in an informal economy in Europe.

Del Carpio and Wagner (2015) study the effects of Syrian refugees on the Turkish labour market. Currently there are around 2.5 million Syrian refugees in Turkey. The study combines newly available data on the distribution of Syrian refugees across Turkey and from the Turkish Labour Force Survey to assess the impact of refugees on the labour market. Just like Albanians in the early 2000s in Greece, today's Syrian refugees are predominantly working in the informal economy. The arrival of refugees has led to a large scale displacement of natives from the informal sector. On the whole, women and poorly-educated men have experienced net displacement from the market. At the same time, formal employment for natives has been growing (mostly for those that have not completed a high school education and mostly for men).

Manacorda et al. (2012) show that over the past 30 years in the UK a significant increase in immigration of more educated workers has significantly raised the supply of qualified labour. Instead of impacting the wages of educated natives, however, this increase in educated immigration has primarily negatively impacted the wages of former immigrants, and in particular those that have a university degree. The authors therefore argue that native and foreign skilled workers are not perfect substitutes in the UK.

Similarly, Münz et al. (2006) find that while the effect of immigration on wages across Europe is on average slightly negative, the effect is quite small. The authors note heterogeneity in Europe with respect to the effects of immigration on wages. In Greece, Italy, Spain, and the UK the effect was either non-existent or slightly positive. In these countries immigrants filled certain market niches that native workers previously would not or could not fill. On the other hand, in Germany prior to labour market deregulation, pressure from immigration had a more negative impact, especially on construction jobs. Overall, they find that labour market efficiency has improved as a result of immigration.

Thus, as we can see, a large new supply of immigrant workers may have different effects on different segments of the labour market. The overall impact, however, is not likely to be very large. Taking into the account current restrictions on market entry by asylum seekers, the OECD forecasts that by the end of 2016, the cumulative number of new entrants into the labour market for all countries of the European Economic Area and Switzerland should not be higher than 1 million people, or around 0.4 percent of the total labour force as a result of the refugee influx in 2014-2016 (OECD, 2015). The figure for Germany should be less than 400,000, or around 1 percent of the total labour force. Thus, the effects on host country labour markets should build up slowly over time, as refugees become better integrated and if and when they are allowed to reunite with their families.

4.5.3 Public finances

The public finance implications of immigration are intimately related to the employment performance of immigrants for the basic reason that individuals in employment contribute more taxes, while those who are not employed are often entitled to some form of public support. In all countries, public finances are therefore very sensitive to the employment level as a result, with larger sensitivities in countries with more extended welfare arrangements. In short, if employment levels among immigrants are above average, it tends to improve public finances and vice versa (see, for example, Liebig and Mo, 2013 and Hansen et al., 2016).

A commonly made argument is that since immigrants are more frequently excluded from the labour force or

unemployed than natives, they spend more time on welfare and other forms of social assistance.⁷ This assumption is not exactly confirmed by empirical studies. Kerr and Kerr (2011) show that welfare dependence is more likely upon arrival, but that, overall, the fiscal impact of immigration is very small. Large differences exist across migrant groups in the costs and benefits that they cause for a host country. The net impact depends heavily on the migrant's age, education, and duration of stay. On average, immigrants appear to make a minor positive net contribution to the host countries' public finance systems. Münz et al. (2006) find that countries that provide quicker access to work or otherwise have a higher share of economic migration (such as the UK, Italy, Greece, Portugal, and Spain) experience a positive fiscal contribution by immigrants. By contrast, when immigration flows are dominated by asylum seekers (who are permitted to work only under restrictive conditions) and families reuniting (as in the case of Denmark and Sweden), immigrants depend more on welfare payments than natives. The authors find that discrimination and inadequate access to schooling and training may make matters worse. One should be mindful of the potential problems with the current wave of refugees and do the utmost to integrate legitimate refugees into the labour market as quickly as possible. More recently, Liebig and Mo (2013) find that the impact on public finances of the cumulative waves of immigrants that arrived over the past 50 years in OECD countries is on average close to zero, and rarely exceeds 0.5 percent of GDP in either positive or negative direction. The highest positive impact is in Switzerland and Luxembourg, where immigrants provide an estimated net benefit of about 2 percent of GDP. These estimates are based on the historic levels and compositions of migration flows. The effects of changes in particular migration groups can be very different from the historic averages. Therefore, it is probably not too meaningful to make general unconditional statements on how public finances are affected by migration.

The German government estimates that each refugee will cost the state around 12,000 euros per year. However, the total costs facing Germany and other EU countries will depend substantially upon factors

⁷ It has been debated whether generous welfare arrangements are a magnet attracting immigrants that would benefit from the welfare system. The evidence in support of this hypothesis is not strong (see Pedersen et al., 2008 and Giulietti et al., 2013). There is some indication of "welfare magnet" effects between the "old" and "new" EU member states (see De Giorgi and Pellizzari, 2013), but not much influencing EU migration flows (Skupnik, 2014). However, irrespective of the driver underlying migration, the public finance consequences depend on whether the immigrants find employment.

that are largely under the control of the state. Namely, a speedy resolution of asylum claims and early integration of refugees into the labour market would both reduce costs and help diffuse the building-up of social pressure.

The speedy resolution of claims would involve, in part, rejection of unfounded asylum claims from all countries that are currently not in war zones and can, therefore, be deemed safe. In order to protect people who are under genuine threat, it is important that the state conserves limited human and material resources. The best way to do this is to strongly discourage would-be economic migrants who disguise themselves as refugees. Such asylum applications should be quickly rejected. Furthermore, people making such claims should be speedily repatriated. This would go a long way towards discouraging an uncontrollable increase in asylum claims. In 2014 and early 2015, a large number of would-be economic migrants from the Western Balkans (mostly Roma and Albanians) applied for asylum protection in Germany, Sweden and some other EU countries. Designating countries of the Western Balkans as "safe countries of origin" quickly and dramatically reduced incentives for "asylum tourism" from these countries in 2016. Given the common border between the Schengen countries, it is critical that these measures (and some others, as we shall discuss in the next section) are coordinated among countries to rule out "regulatory arbitrage", or the exploitation of weaknesses in some countries' regulations. Having said this, EU countries should provide an outlet for people who are looking for jobs to apply for economic migration visas through managed migration programmes. Such programmes would match the skills that immigrants possess with unmet needs in host countries.

4.6 Key challenges and potential policy responses

Immigration pressure on Europe is likely to persist in the foreseeable future. While the level of future immigration is highly uncertain, the underlying drivers are going to be present, which in turn raises a number of questions concerning migration policies. Migration takes many forms. The following primarily discusses the policy options related to refugees and family unification.

In the past year, the refugee crisis has taken centre stage in the public debate in Europe, putting politi-

cians under mounting pressure to take action. In the wake of a dramatic raise in populism this is understandable. However, it is important to act wisely and to take into account the long-term consequences of potential policy responses. First of all, it is critical to avoid moves that would worsen the crises in already destabilised countries, or create new “hot spots”. In addition, one should act preventively and help, as far as possible, afflicted and potentially afflicted countries to develop their economies, thus reducing the incentives for people to emigrate. The key is to enable trade and investments with these countries. Another complementary measure would be to focus more of the development aid efforts on improving training and education.

Such general considerations are important, but do not make more specific refugee policies redundant. On the contrary, while migration pressures have recently somewhat diminished (among other reasons, due to the EU’s arrangement with Turkey), this may not be a permanent situation. There is therefore an urgent need to develop a coherent policy response.

Refugee policy is a clear case for European policy cooperation. The ultimate objective is humanitarian, namely to help people displaced by wars, conflicts or natural catastrophes. For a European response to be viable in the long run, the burden should be apportioned equitably among countries. This can only be achieved if states cooperate. At present, however, European policy is characterised by a shift towards a non-cooperative approach whereby countries take different routes in an attempt to reduce the inflow of migrants.

The break-down of the European humanitarian migration system is no surprise, since it has never been fully developed (see Box 4.2). A core element is the Dublin regulation whereby the responsibility of examining asylum applications rests on the member country of an immigrant’s first entry into the EU. Without any sharing mechanism, this system is bound to break down in the case of mass migration, since it places an excessive burden on the border countries. The opposite situation with elaborate sharing mechanisms involving all EU countries, and having individual countries determining who is admitted in, reduces the incentives of border countries to control entry. Furthermore, once a person is admitted into one Schengen country, s/he can move, eventually, to other European countries. Thus, individual country deci-

sions to admit refugees may create a negative externality for others. For this reason, there needs to be developed a system with a common set of admission rules and criteria determining when asylum is granted (including safe-third countries), as well as a time-consistent sharing rule determining how the burden related to hosting the asylum seekers is allocated across countries.

In trying to come up with a workable system two key factors have to be recognised, although they may initially seem unacceptable to some on humanitarian grounds. Firstly, the current system has a tendency to foster illegal immigration. Secondly, migrants are driven by different motivations, and there is an important, but difficult issue of distinguishing between those who have a legitimate reason to apply for an asylum from those who use this option as a way to immigrate into Europe, but are not facing pressing humanitarian need.

According to the Geneva Convention, a refugee has to enter the territory of a country in order to apply for an asylum. As a result, most refugees rely on irregular migration channels in order to reach the country where they want to apply for asylum. This makes a strong argument for developing designated asylum application centres in countries outside of the EU and close to (but outside of) the conflict zones. This would reduce the incentives for refugees to resort to hazardous migration channels in order to reach destination countries, thus lowering both human and financial costs for refugees. The approach is also attractive because it would significantly rein in the uncontrollable influx of people into the EU. However, it is demanding in terms of the required resources, and presupposes broad cooperation both within the EU, as well as with those countries that host such centres.

Furthermore, the EU countries would also need to coordinate their actions regarding the refugee problem with those countries surrounding the EU. A close coordination with the Western Balkan countries is already established and should be further deepened. Some of these countries have done a lot to cooperate with the EU in handling the refugee crisis. The region should also be encouraged to cooperate internally and, eventually, as it progresses economically and politically, it should be integrated into the EU. This would establish a contiguous, well-defined border of the European Union that would be easier to protect than is currently the case.

An especially sensitive problem is how to deal with Turkey. Currently, Turkey is home to over 60 percent of all Syrian refugees. The agreement with the EU implies that Turkish citizens should obtain the right of visa-free travel into the EU. In principle, this is a good idea given that Turkey is a fast growing economy with a large number of highly qualified individuals. Thus, engaging Turkey and cooperating with it has no reasonable alternative. On the other hand, it is not wise to fully lift visa requirements for Turkish citizens without a marked improvement in the respect of human rights in that country. Otherwise, a visa-free travel agreement with Turkey is likely to create fresh waves of refugees into the EU, this time out of Turkey.

While it may, at first, seem to conflict with humanitarian aims, an effective sorting of individuals seeking a refugee status is crucial to the long-term functioning of the system. It is necessary to recognise that refugee waves triggered by conflicts and wars often bring other migrants along, who are not fulfilling the criteria for asylum, but are escaping severe poverty, for example. Such sorting requires clearly defined rules applied equally by all European countries. The present situation with unclear and disparate rules and procedures across EU countries create “regulatory arbitrage” opportunities, which do not improve the situation, to say the least.

One important risk is “The Bubble Effect”. Recall the late 1990s and the so-called dotcom bubble. Driven by the desire for fast profits, media frenzy, and the Clinton administration’s talk of a “New Economy” not based on economic fundamentals, people started to believe that the prices of dot.com companies would increase forever. As a result, a large share of the population thought that one should either create an internet start-up or, at the very least, buy shares in such companies in order not to be left behind. In a self-fulfilling prophecy, the share prices of internet companies skyrocketed. For the bubble to inflate, people had to stop making rational decisions and start taking huge, unwarranted, financial risks just because everyone else around them was doing it. Allen Greenspan, former Chairman of FED, warned about “Irrational Exuberance” in 1998, but failed to burst the bubble. One serious danger is that something similar could happen with the refugee situation in Europe if expectations are not properly managed.

When a fraction of people from war-torn countries in or close to Europe apply for asylum in Europe, the

continent can handle the situation. It has shown this on numerous occasions, including the wars in the former Yugoslavia. Offering shelter is both a humane and a rational act. It is equally as rational for the affected people to look for help. More recently, however, especially after Angela Merkel’s “Wir schaffen das” (English: we can do this) statement, expectations started to form that there would be virtually no limits to Germany’s (and, by extension, to Europe’s) absorption capacity for refugees. This, in turn, attracted a large number of people who were not directly impacted by the conflicts to apply for an asylum. A bubble of sorts started to form. To an increasing number of people, it seemed that they needed to emigrate now in order not to miss out on the opportunity. By doing so, they have been willing to take enormous, often completely unwarranted, risks. It is important that European leaders clearly manage such expectations and burst the bubble. This requires clear and transparent rules for when asylum is granted, and common criteria for safe countries where people are not under imminent threat. Such policies may sound insensitive to some, but they would actually save many lives that may be seriously jeopardised otherwise. The example of the Western Balkans shows that this approach can work.

It can only be successful, however, if those who are not genuine asylum seekers are effectively excluded from the asylum system. In addition to the previously described bursting of the “refugee bubble”, the rules across Europe on illegal border crossings or travelling without a passport and, especially on human trafficking should be seriously tightened. This is paramount in order to fight organised crime and the possible infiltration of terrorists alongside genuine victims of wars. National European police forces should closely cooperate with each other. Simply put, Europe should protect its borders.

Developing a workable sharing system among EU countries raises difficult questions. More specifically, refugees may wish to go to a particular country, but that country may not wish to host them. If the number of asylum seekers is below national absorption capacity, this does not create a major problem. However, this may no longer hold true in periods of a massive refugee influx. Thus, it is reasonable for countries to have some upper limit on the intake of refugees. In fact, countries may have an incentive to set that limit at such a low level so as to shift the burden to other countries.

One possible solution to this is that all EU countries contribute to a joint “refugee fund” (computed based on, say, relative GDP). The size of the fund would depend on the total number of refugees admitted into the EU under jointly established criteria. In this system, refugees would propose, say, three countries to which they would consider relocating (in the order of preference). Countries accepting them would then be compensated from that fund. The idea is to come up, as far as possible, with an incentive-compatible allocation rule. Such a scheme would maintain the right of member countries to determine inflows of asylum seekers, while ensuring that they do not free ride on the common policy. It is worth highlighting that the EU settlement agreement in 2015 was deficient in that respect. Namely, not only did some countries not want to accept refugees, but refugees also did not want to go to these countries in some cases. Furthermore, one should bear in mind that, as long as Schengen agreement stays in place, allocating refugees to a particular country does not mean that they will stay there if they do not want to.

We focus on a possible set of solutions to the refugee crisis that can be termed as a “More Europe” approach. If no coordination proves possible, one arrives at another solution that could be termed the “Less Europe” approach. In the latter case, European countries may attempt to defend their own borders, often disregarding the welfare of others (this is partially already happening). This is an inferior solution as it is costly, and it will probably lead to the eventual break-up of the Schengen Treaty, one of the EU’s key achievements to date. In addition, it may result in various types of misunderstandings and conflicts between European countries. The main obstacles to establishing a cooperative solution are political in nature. Namely, many countries are taking an opportunistic approach by pursuing narrowly defined short term national interests, although that may make things tougher for everyone in the long run.

References

- Abel, G. and N. Sander (2014), “Quantifying Global International Migration Flows,” *Science* 343, 1520–22.
- Abel, G. (2015), “Estimates of Global Bilateral Migration Flows by Gender between 1960 and 2015,” *Vienna Institute of Demography, Austrian Academy of Sciences Working Paper* 5.
- Abel, G. (2016), “Why Global Migration Statistics Do not Add up,” *Der Spiegel*, 17 May.
- Boubtane, E. and J.-C. Dumont (2013), “Immigration and Economic Growth in the OECD Countries 1986-2006: A Panel Data Analysis,” *Documents de Travail du Centre d’Economie de la Sorbonne* 3.
- Cholezas, I. and P. Tsakloglou (2008), “The Economic Impact of Immigration in Greece: Taking Stock of the Existing Evidence,” *IZA DP* 3754.
- De Girogi, G. and M. Pellizzari (2013), “Welfare Migration in Europe,” *Labour Economics* 16, 353–63.
- Del Carpio, X. V. and M. Wagner (2015), “The Impact of Syrian Refugees on the Turkish Labor Market,” *World Bank Policy Research Working Paper* 7402.
- Dumont, J.-C., T. Liebig, J. Peschner, F. Tanay and T. Xenogiani (2016), “How are Refugees Faring on the Labour Market in Europe? A first Evaluation Based on the 2014 EU Labour Force Survey Ad Hoc Module,” *European Commission and OECD Working Paper* 1.
- Dustmann, C., L. Minale, F. Fasani, U. Schönberg and T. Frattini (2016), “On the Economics and Politics of Refugee Migration,” *CESifo Working Paper* 6111.
- EEAG (2015), “Migration in the European Union: Too Much of a Good Thing?” *The EEAG Report on the European Economy*, CESifo, Munich, 78–96.
- European Commission (2016), “Completing the Reform of the Common European Asylum System: Towards an Efficient, Fair and Humane Asylum Policy,” *Press Release*, 13 July.
- European Union Agency for Fundamental Rights (2016), *Handbook on European Law Relating to Asylum, Borders and Immigration*, Publications Office of the European Union, Luxembourg.
- Giulietti C., M. Guzi., M. Kahanec and K. F. Zimmerman (2013), “Unemployment Benefits and Immigration: Evidence from the EU,” *International Journal of Manpower* 34, 24–38.
- Hansen, M. F., M. L. Schultz-Nielsen and T. Tranæs (2015), “The Impact of Immigrants on Public Finances – A Forecast Analysis for Denmark,” *Rockwool Foundation Research Unit Study Paper* 90.
- IMF (2016a), *World Economic Outlook*, Autumn 2016, IMF, Washington.
- IMF (2016b), “The Refugee Surge in Europe: Economic Challenges,” *IMF Staff Discussion Note* 2.
- Kerr, S. P. and W. R. Kerr (2011), “Economic Impacts of Immigration: A Survey,” *Harvard Business School Preprint* 09-013.
- Liebig, T. and J. Mo (2013), “The Fiscal Impact of Immigration in OECD Countries,” *International Migration Outlook 2013*, OECD, Paris.
- Lutz, W., W. P. Butz and K. C. Samir (2014), *World Population & Human Capital in the Twenty First Century*, Oxford University Press, Oxford.
- Manacorda, M., A. Manning and J. Wadsworth (2012), “The Impact of Immigration on the Structure of Wages: Theory and Evidence from Britain,” *Journal of the European Economic Association* 10, 120–51.
- Münz, R., T. Straubhaar, F. Vadean and N. Vadean (2006), “The Costs and Benefits of European Immigration,” *HWWI Policy Report* 3.
- OECD (2014), “Is Migration Good for the Economy,” *OECD Migration Policy Debates* May 2014.
- OECD (2015), “How will the Refugee Surge Affect the European Economy?” *OECD Migration Policy Debate* 8.
- OECD (2016), *International Migration Outlook*, OECD, Paris.
- Pedersen, P. J., M. Pytlikova and N. Smith (2008), “Selection and Network Effects: Migration Flows into OECD Countries 1990–2000,” *European Economic Review* 52, 1160–86.
- Sander N., G. Abel and F. Riosmena (2013), “The Future of International Migration: Developing Expert-Based Assumptions

for Global Population Projections," *Vienna Institute of Demography, Austrian Academy of Sciences Working Paper 7*.

Sinn, H.-W. (2015), "Wir werden leichter an eine Putzkraft kommen," *Die Zeit*, 8 October.

Skupnik, C. (2014), "EU Enlargement and the Race to the Bottom of Welfare States," *IZA Journal of Migration* 3:15, 1–21.

Stern, R.T. (2016), "Responses to the 'Refugee Crisis': What is the Role of the Self-Image among EU Countries?" *SIEPS European Policy Analysis* 10.

UNHCR (2016), *Global Trends – Forced Displacements in 2015*, UNHCR, Geneva.