

ECONOMIC AND LEGISLATIVE IMPACT OF THE UNITED NATIONS IN MANAGING REFUGEE CRISIS

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Abstract

The current refugee influx represents the largest population movement in Europe since World War II. These tendencies, once again brought into actuality the harmonization of intern legislation which are committed to protect refugees by the Convention related to the Status of Refugees (1951) and it's Protocol (1967). Many experts agree that, in short term, the refugee influx will lead top rising costs, arising from the need to provide food, shelter and first aid. In the longer term, the refugee influx could be positive for European economy by, addressing the EU's alarming demographic trends. Depending on their education, skills and willingness to work, refugees might improve the ratio of active workers and also contribute to innovation, entrepreneurship and GDP growth. Also they are a good possibility to positively impact to labor-market flexibility.

The authors through the paper intended to provide answers to several questions: How many of today's legislation and practices respect the principle of "non-refoulment" of refugees? Does the United Nations can fulfill the role of general defender of refugees? How much is the cost of refugee's resettlement? etc. To verify these thoughts and hypothesis, the authors will be using different methods of scientific research as: normative, comparative, empiric, historical and statistical methods.

Keywords: *refugees, United Nations, costs, law, defense*

We are facing the biggest refugee and displacement crisis of our time. Above all, this is not just a crisis of numbers; it is also a crisis of solidarity."

Ban Ki Moon, United Nations Secretary General

Introduction

It is the responsibility of States to protect their citizens. When governments are unwilling or unable to protect their citizens, individuals may suffer such serious violations of their rights that they are forced to leave their homes, and often even their families, to seek safety in another country. Since, by definition, the governments of their home countries no longer protect the basic rights of refugees, the international community then steps in to ensure that those basic rights are respected. The greatest challenge facing refugees arriving in the developed world has traditionally been to convince authorities that they are, in fact, entitled to recognition of their refugee status.¹ In the aftermath of World War II, the United Nations undertook specific initiatives to increase the

¹ James C. Hathaway, *The Rights of Refugees under International Law*, Edinburgh: Cambridge University Press, 2005, 1.

protection of refugees in the position that got worldwide. The results of the initiatives were the establishment of Office of the United Nations High Commissioner for Refugees (UNHCR) and the adoption of a number of instruments with legal force, among which the Convention Relating to the Status of Refugees² and the Protocol Relating to the Status of Refugees.³ These two instruments already seen by the researches, practitioners and government authorities as the cornerstone of refugee protection. Together, the Refugee Convention and Protocol cover three main subjects:

- The basic refugee definition, along with terms for cessation of, and exclusion from, refugee status;
- The legal status of refugees in their country of asylum, their rights and obligations, including the right to be protected against forcible return, or *refoulement*, to a territory where their lives or freedom would be threatened;
- States' obligations, including cooperating with UNHCR in the exercise of its functions and facilitating its duty of supervising the application of the Convention.

1. International sources for the protection of refugees

1.1 Convention Relating to the Status of Refugees

The Refugee Convention adopted on 28 July 1951 in Geneva and entered into force on 22 April 1954. A product of two world wars, it was the first instrument to deal specifically with the protection of refugees worldwide.⁴ The origins of the Convention can be traced back to the early twentieth century. Prior to this time, customary international law imposed an obligation on states to protect their own nationals only. This obligation did not extend to individuals from other nations who found themselves within the borders of a state. States had the discretion to accept immigrants whom they perceived would contribute to the economy or society in a positive way, and to expel refugees under the assumption that the right to do so was inherent in a state's sovereign powers.⁵

During the inter-war years of 1919–1939, numerous violent conflict and political problems in Europe and the Middle East led to the displacement of large numbers of people. This exodus clashed with the desire of individual states to control immigration and led the international community to respond to the refugee issue. The League of Nations was among the first international organizations took steps to provide solutions to this issue. It did so by formulating agreements to

²Convention relating to the Status of Refugees, Geneva 28 July 1951, <http://www.unhcr.org/protect/PROTECTION/3b66c2aa10.pdf>, (hereinafter Refugees Convention)

³Protocol relating to the Status of Refugees, 4 October 1967, <http://www.unhcr.org/protect/PROTECTION/3b66c2aa10.pdf>, (hereinafter Protocol).

⁴ David Weissbrodt, "The Principle of Non-Refoulement", Buffalo Human Rights Law Review, vol.5, 18.

⁵ John Vrachnas, Kim Boyd, Mirko Bagaric, Penny Dimopoulos, Migration and Refugee Law: Principles and Practice in Australia, Edinburgh: Cambridge University Press, 2005, 172.

ensure refugee protection. Such agreements related to specific refugee situations and were thus *ad hoc* in nature.⁶

The displacement of the people that brought World War II, made it clear that the refugee problem was not temporary, and therefore no need for the formulation of an instrument with broad approach that will address and regulate more effectively crises arising from the influx of refugees. Numerous efforts first and foremost from the United Nations, resulting in the adoption of the Refugees Convention. It can be seen as an agreement founded on Article 14 of the Universal Declaration of Human Rights:⁷ *(1) Everyone has the right to seek and to enjoy in other countries asylum from persecution; (2) This right may not be invoked in the case of prosecutions genuinely arising from non-political crimes or from acts contrary to the purposes and principles of the United Nations.* The work on preparation and its drafting was done from 1948 to 1951 by various UN institutions, committees and temporary plenipotentiary conferences, which were represented in twenty-six states. Today, the total number of States that have signed this Convention is 145 states⁸ from around the world. The Refugee Convention's drafters' intention to expand the scope of protection accorded by earlier international agreements relating to the status of refugees is emphasized in the preamble.⁹ The treaty also grants much wider protection from non-refoulement than previous instruments, which were generally designed for specific refugee situations only.

1.2 Protocol relating to the Status of Refugees

Because the Refugees Convention was drafted after the end of World War II, its definition for refugees focuses on people who are outside their country of origin and are refugees as a result of events occurring in Europe or elsewhere before 1 January 1951. The emergence of new refugee crisis during the late 1950s and early 1960s, it became necessary to widen both the temporal and geographical scope of the Refugee Convention. Thus, a Protocol to the Convention was drafted and adopted.¹⁰ The Protocol adopted on 4 October 1967, is a treaty which incorporates the Refugee Convention's rights regime by reference, and extends those protections to all refugees by prospectively eliminating the Convention's temporal and geographical limitations for those countries which choose to be bound by it. The Protocol is not, as is commonly believed, an amendment to the 1951 Convention: as Weis has observed, "with the entry in to force of the

⁶ Ibid, 172-173.

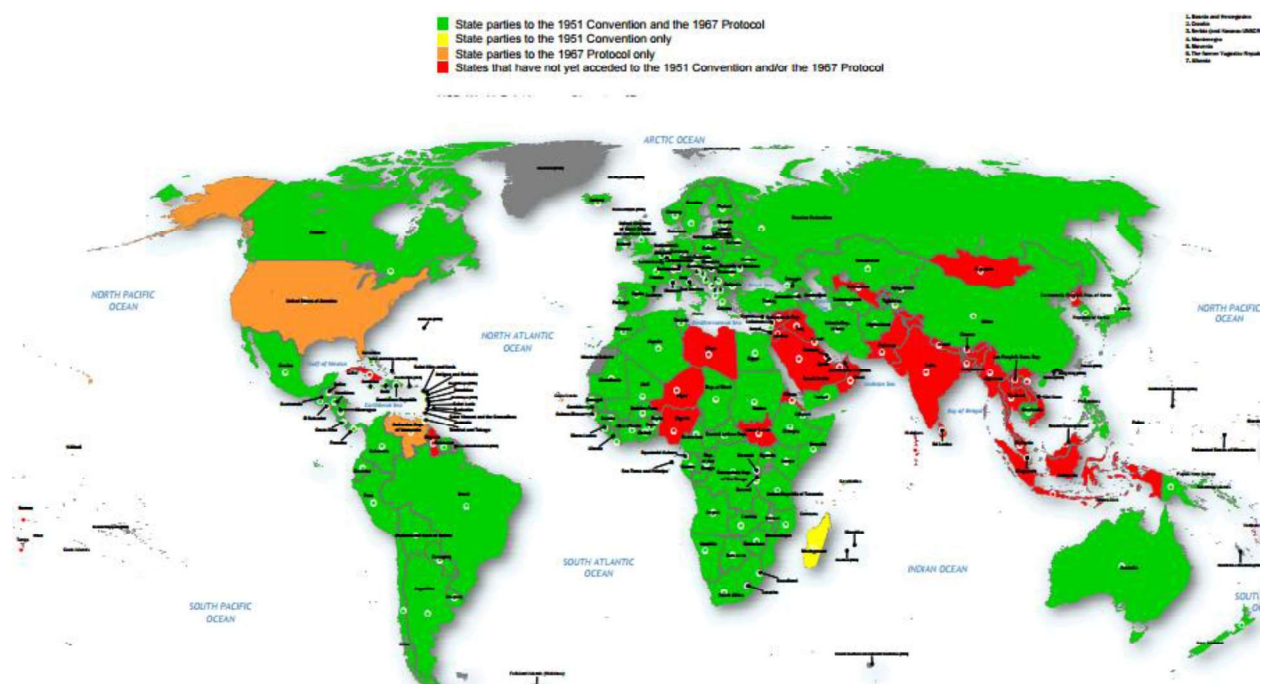
⁷ Universal Declaration of Human Rights, 10 December 1948, Paris, <http://www.un.org/en/universal-declaration-human-rights>.

⁸ List of signatory states can be found at <http://www.unhcr.org/protection/basic/3b73b0d63/states-parties-1951-convention-its-1967-protocol.html>.

⁹ In its exact wording the relevant part of the preamble reads, "Considering that it is desirable to revise and consolidate previous international agreements relating to the status of refugees and to extend the scope of and the protection accorded by such instruments by means of a new agreement." Convention on Refugees, *supra* note 7, at Preamble.

¹⁰ Refugee Protection – A Guide to International Refugee Law, The Handbook prepared with Input from the Parliamentarians, all Officers of the Inter-Parliamentary Union's Committee on Parliamentary, Juridical and Human Rights Questions and of the IPU Committee to Promote Respect for International Humanitarian Law, 8, <http://www.unhcr.org/publications/legal/3d4aba564/refugee-protection-guide-international-refugee-law-handbook-parliamentarians.html>.

Protocol there exist, in fact, two treaties dealing with the same subject matter.”¹¹ The Full Federal Court of Australia has reached the same conclusion, noting that states may accede to the Protocol without first becoming a party to the Convention, and that those which do so are immediately bound to grant the rights described in the Convention to a broader class of persons – that is, to modern refugees from all parts of the world – than would have been the case by accession to the Convention itself.¹² Today, the total number of countries that have signed the Protocol is 146.¹³ By acceding to the Protocol, States agree to apply most of the articles of the Refugee Convention (Articles 2 through 34) to all persons covered by the Protocol’s refugee definition. Yet the vast majority of states have preferred to accede to both the Convention and the Protocol.¹⁴ In doing so, states reaffirm that both treaties are central to the international refugee protection system.¹⁵



State Parties to the 1951 Convention Relating to the Status of Refugees and its 1967 Protocol

¹¹ Paul Weis, “The 1967 Protocol relating to the Status of Refugees and Some Questions relating to the Law of Treaties” (1967), *British Yearbook of International Law* 39, 60.

¹² *Minister for Immigration and Multicultural Affairs v. Savvin*, (2000) 171 ALR 483 (Aus. FFC, Apr. 12, 2000), <https://www.ato.gov.au/law/view/document?DocID=JUD%2F171ALR483%2F00002>.

¹³ List of signatory states can be found at <http://www.unhcr.org/protection/basic/3b73b0d63/states-parties-1951-convention-its-1967-protocol.html>.

¹⁴ From the list of member states, it can see that 142 states are parties to both the Refugees Convention and Protocol, while 148 states are parties to one or both of these instruments.

¹⁵ *Refugee Protection – A Guide to International Refugee Law*, 10.

2. Definition of the refugees

Refugees¹⁶ are persons fleeing armed conflict or persecution. There were 21.3 million of them worldwide at the end of 2015. Their situation is often so perilous and intolerable that they cross national borders to seek safety in nearby countries, and thus become internationally recognized as "refugees" with access to assistance from States, UNHCR, and other organizations. They are so recognized precisely because it is too dangerous for them to return home, and they need sanctuary elsewhere. These are people for whom denial of asylum has potentially deadly consequences.

Refugees are defined and protected in international law. The Refugee Convention and its Protocol, remains the cornerstone of modern refugee protection. The legal principles they enshrine have permeated into countless other international, regional, and national laws and practices. The Refugee Convention defines who is a refugee and outlines the basic rights which States should afford to refugees. One of the most fundamental principles laid down in international law is that refugees should not be expelled or returned to situations where their life and freedom would be under threat.

The protection of refugees has many aspects. These include safety from being returned to the dangers they have fled; access to asylum procedures that are fair and efficient; and measures to ensure that their basic human rights are respected to allow them to live in dignity and safety while helping them to find a longer-term solution. States bear the primary responsibility for this protection. The UNHCR therefore works closely with governments, advising and supporting them as needed to implement their responsibilities.

Unlike earlier instruments, the Refugee Convention and Protocol¹⁷ purported to provide a general definition of who was to be considered a refugee. The definition contained in the text of Refugee Convention and Protocol provides that a "refugee" is any person with well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion who is outside the country of his [or her] nationality and is unable or, owing to such fear, is unwilling to avail himself [or herself] of the protection of that country. There are only a few cases defined in the Refugee Convention, where refugees are not entitled to receive protection: *(a) the person has committed serious crimes, mainly against peace or humanity; (b) very serious non-political crimes have been previously committed by the asylum seeker; (c) the acts of the person were against basic United Nations regulations and/or principles.*¹⁸

¹⁶ In practice it usually distinguishes between refugees and migrants category. According to UNHCR, migrants choose to move not because of a direct threat of persecution or death, but mainly to improve their lives by finding work, or in some cases for education, family reunion, or other reasons. Unlike refugees who cannot safely return home, migrants face no such impediment to return. If they choose to return home, they will continue to receive the protection of their government. For individual governments, this distinction is important. Countries deal with migrants under their own immigration laws and processes. Countries deal with refugees through norms of refugee protection and asylum that are defined in both national legislation and international law. Adrian Edwards, "UNHCR viewpoint: 'Refugee' or 'migrant' – Which is right?", <http://www.unhcr.org/55df0e556.html>.

¹⁷ Article 1A (2) of Refugee Convention and Article 1(2) of Protocol.

¹⁸ Article 1F of Refugee Convention.

The Preamble to the Refugee Convention refers to the UN Charter and The Universal Declaration of Human Rights (UDHR), noting that these instruments “have affirmed the principle that human beings shall enjoy fundamental rights and freedoms without discrimination.” The Preamble further notes that the United Nations has “manifested its profound concern for refugees and endeavoured to assure refugees the widest possible exercise of these fundamental rights and freedoms.”

The Convention of the Organization of African Unity Governing the Specific Aspects of Refugee problems in Africa provides a broader definition of refugee. According to this Convention, a refugee is “every person who, owing to external aggression, occupation, foreign domination or events seriously disturbing public order in either part or the whole of his country of origin or nationality, is compelled to leave his place of habitual residence in order to seek refuge in another place outside his country of origin or nationality”.¹⁹

3. The principle of non-refoulement

A refugee’s right to be protected against forcible return, or refoulement, is set out in the Refugee Convention: “No Contracting State shall expel or return (‘refouler’) a refugee in any manner whatsoever to the frontiers of territories where his life or freedom would be threatened on account of his race, religion, nationality, membership of a particular social group or political opinion.”²⁰

Refoulement is also prohibited explicitly or through interpretation by the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (Article 3); the Fourth Geneva Convention of 1949 (Article 45(4)); the International Covenant on Civil and Political Rights (Article 7); the Declaration on the Protection of All Persons from Enforced Disappearance (Article 8); and the Principles on the Effective Prevention and Investigation of Extra-Legal, Arbitrary and Summary Executions (Principle 5). In addition, refoulement is prohibited explicitly or through interpretation in a number of regional human rights instruments, including the European Convention for the Protection of Human Rights and Fundamental Freedoms (Article 3); the American Convention on Human Rights (Article 22); the OAU Refugee Convention (Article II); and the Cairo Declaration on the Protection of Refugees and Displaced Persons in the Arab World (Article 2).

This principle is the primary response of the international community to the need of refugees to enter and remain in an asylum state. The duty of non-refoulement is not, however, the same as a right to asylum from persecution, in at least two ways. First and most critically, the duty of non refoulement only prohibits measures that cause refugees to “be pushed back into the arms of their persecutors”; it does not affirmatively establish a duty on the part of states to receive refugees. As

¹⁹ Article 1(2) of the OAU Convention Governing the Specific Aspects of Refugee problems in Africa, Addis-Ababa, 10 September 1969 <http://www.unhcr.org/protect/PROTECTION/3b66c2aa10.pdf>.

²⁰ Article 33(1) Refugee Convention.

an obligation “couched in negative terms”, it constrains, but does not fundamentally challenge, the usual prerogative of states to regulate the entry into their territory of non-citizens.²¹

It is widely accepted that the prohibition of refoulement is part of customary international law. This means that even states that are not party to the Refugee Convention must respect the principle of non-refoulement. States have an obligation under the Refugee Convention and under customary international law to respect the principle of non-refoulement. When this principle is violated or threatens to be, UNHCR respond by intervening with relevant authorities, and if it deems necessary, will inform the public. In some circumstances, persons facing refoulement may have recourse to relevant human rights mechanisms, such as the Committee against Torture.²²

4. The role of UNHCR

The UNHC was not the first international organization with responsibilities for refugees. Beginning with the time of the League of Nations, there was a succession of refugee organizations created to deal with groups of refugees. These organizations are presented as the precursors to UNHCR in refugee law texts, treatises on refugee law, and UNHCR’s training manual on international protection.²³

A humanitarian and non-political organization, UNHCR is mandated by the United Nations to protect refugees and help them find solutions to their plight. As the problem of displacement has grown in complexity over the past half century, UNHCR has also grown to meet the challenge. The Office, founded in 1950, pursuant to the adoption of its Statute by the General Assembly,²⁴ to help millions of Europeans who had fled or lost their homes, has expanded from a relatively small, specialized agency with an envisioned three-year lifespan to an organization of over 10,700 staff members with offices in nearly 128 countries and an annual budget which in its first year was USD \$300,000, grew to USD \$6.54 billion in 2016.²⁵ In addition to offering legal protection, UNHCR now also provides material relief in major emergencies, either directly or through partner agencies. In its first fifty years, UNHCR has protected and assisted more than 50 million people and its work has earned two Nobel Peace Prizes (the first in 1954 for its groundbreaking work in Europe, and the second in 1981 for what had become worldwide assistance to refugees). At the international level, UNHCR promotes international refugee agreements and monitors government compliance with international refugee law. UNHCR staff promote refugee law among all people who are involved in refugee protection, including border guards, journalists, NGOs, lawyers, judges and senior governmental officials.

²¹ James C. Hathaway, op. cit., 300-301.

²² Refugee Protection – A Guide to International Refugee Law, 14.

²³ Cornne Lewis, UNHCR and International Refugee Law: From Treaties to Innovation, East Eisenhower Parkway: ProQuest LLC, 2014, 33.

²⁴ Statute of the Office of the United Nations High Commissioner for Refugees, contained in the Annex to UN General Assembly Resolution 428(V) of 14 December 1950. G.A. Res. 428(V) (14 Dec. 1950), <http://www.unhcr.org/protection/basic/3b66c39e1/statute-office-united-nations-high-commissioner-refugees.html>.

²⁵ <http://www.unhcr.org/history-of-unhcr.html>.

The start of the 21st century has seen UNHCR help with major refugee crises in Africa, the Middle East and Asia. It has also been asked to use its expertise to help many internally displaced by conflict and expanded its role in helping stateless people. At the field level, UNHCR staff work to protect refugees through a wide variety of activities, including responding to emergencies, relocating refugee camps away from border areas to improve safety; ensuring that refugee women have a say in food distribution and social services; reuniting separated families; providing information to refugees on conditions in their home country so they can make informed decisions about return; documenting a refugee's need for resettlement to a second country of asylum; visiting detention centers; and giving advice to governments on draft refugee laws, policies and practices. UNHCR seeks long-term solutions to the plight of refugees by helping refugees repatriate to their home country, if conditions are conducive to return, integrate into their countries of asylum, or resettle in second countries of asylum.²⁶

Since 2011, when UNHCR announced a new record of 42.5 million forcibly displaced people globally, these numbers have risen sharply each year, from 45.2 million in 2012 to 51.2 million in 2013 and 59.5 million in 2014. This is an increase of more than 50 per cent in five years. The total number of refugees and internally displaced persons (IDPs) protected or assisted by UNHCR stood at 52.6 million, compared to 46.7 million at the end of 2014. During the course of 2015 more than 12.4 million individuals were forced to leave their homes and seek protection elsewhere; of this number, some 8.6 million remained within their own countries and around 1.8 million sought international protection abroad. In addition, 2.0 million new claims for asylum were made within the year.

These statistical data provide evidence that the global population of forcibly displaced people has increased substantially in the past two decades, rising from 37.3 million in 1996 to 65.3 million in 2015 – a 75 per cent increase. From 1999 to 2011 this population remained relatively stable, fluctuating at around six individuals per 1,000, or about one in about every 167 people. Since then, however, and coinciding with the beginning of the 'Arab Spring' and the Syrian conflict, this proportion has increased dramatically, rising to nearly nine per 1,000 by the end of 2015 or one in about every 113 people (Figure1).²⁷

²⁶ Refugee Protection – A Guide to International Refugee Law, 21.

²⁷ Source for population size: United Nations, Population Division, World Population Prospects: The 2015 Revision, New York, 2015, https://esa.un.org/unpd/wpp/publications/files/key_findings_wpp_2015.pdf.

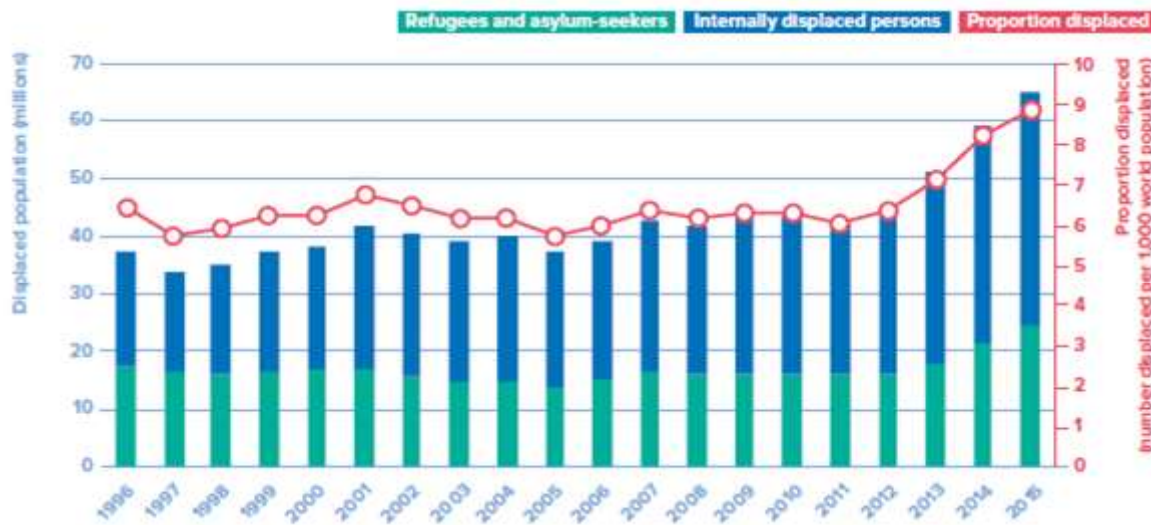


Figure 1. *Trend of global displacement & proportion displaced 1996-2015 (end year)*

Thus, the global population of forcibly displaced people today is larger than the entire population of the France. If they were a country, the forcibly displaced would be the 21st largest in the world (Figure 2).²⁸

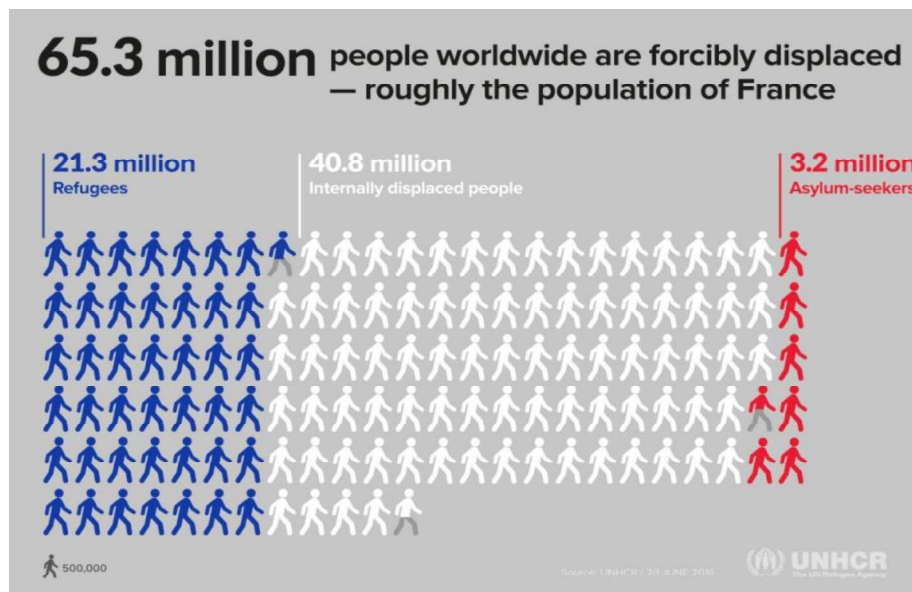


Figure 2. *Number of people through the subcategories of forcibly displaced*

With 4.4 million individuals, the sub-Saharan Africa region hosted the largest number of refugees. Refugees originating from five countries (Somalia, South Sudan, the Democratic Republic of the

²⁸ Ibid.

Congo, Sudan, and the Central African Republic) accounted for 3.5 million (80%) of the total refugee population residing in this region by the end of 2015.²⁹

UNHCR's Europe region hosted the second largest number of refugees, with slightly less than Africa at just below 4.4 million, an increase of 1.3 million (41%) from the previous year. In 2015, the majority (58%) of refugees in Europe resided in Turkey (2.5 million), mostly from the Syrian Arab Republic and Iraq. Other countries in Europe hosting large numbers of refugees included Germany (316,100), the Russian Federation (314,500), France (273,100), Sweden (169,500), the United Kingdom (123,100), and Italy (118,000).³⁰

The Asia and Pacific region hosted 3.8 million refugees at the end of 2015, representing a slight decline from the previous year. Meanwhile, the Middle East and North Africa region continued to generate large scale movements of refugees. In 2015, this region hosted about 2.7 million refugees, while border management, the application of visa and new admission requirements, as well as other restrictive policies in host countries have adversely affected access to safety in various parts of the region.

The Americas region hosted 746,800 refugees by the end of 2015.³¹

UNHCR regions	Start-2015			End-2015			Change (total)	
	Refugees	People in refugee-like situations	Total refugees	Refugees	People in refugee-like situations	Total refugees	Absolute	%
- Central Africa and Great Lakes	625,000	37,600	662,600	1,173,400	15,900	1,189,300	526,700	79
- East and Horn of Africa	2,568,000	33,400	2,601,400	2,739,400	-	2,739,400	138,000	5
- Southern Africa	177,700	-	177,700	189,800	-	189,800	12,100	7
- West Africa	243,300	-	243,300	295,000	-	295,000	51,700	21
Total Africa*	3,614,000	71,000	3,685,000	4,397,600	15,900	4,413,500	728,500	20
Americas	509,300	259,700	769,000	496,400	250,400	746,800	-22,200	-3
Asia and Pacific	3,615,200	280,100	3,895,300	3,551,900	278,300	3,830,200	-65,100	-2
Europe	3,057,000	18,200	3,075,200	4,362,600	28,800	4,391,400	1,316,200	43
Middle East and North Africa	2,898,500	65,400	2,963,900	2,675,400	64,100	2,739,500	-224,400	-8
Total	13,694,000	694,400	14,388,400	15,483,900	637,500	16,121,400	1,733,000	12

* Excluding North Africa.

Figure 3. Refugee population by UNHCR regions (2015)

5. Economic point of view

5.1 Short-term macroeconomic impact

The initial macroeconomic impact from the inflow of asylum seekers is through aggregate demand while labor supply effects develop gradually. In the short term, additional public spending for the provision of first reception and support services to asylum seekers, such as housing, food, health and education, will increase aggregate demand. The fiscal expansion will— together with supportive monetary policy—help compensate for possible downward pressures on wages and

²⁹ <http://www.unhcr.org/statistics/unherstats/576408cd7/unhcr-global-trends-2015.html>.

³⁰ Ibid.

³¹ Ibid.

inflation associated with the gradual entry of refugees into employment. In the medium and long run, the impact of the refugees on employment and GDP will depend on the speed of their integration in the labor market, the extent to which the newcomers' skills will complement or substitute those of the native labor force, and their impact on the allocation of resources, product mix, and production technology.

5.1.1 The short-term fiscal costs of caring for the asylum seekers could be sizable in some countries.

IMF staff estimate that, on a GDP-weighted basis, average budgetary expenses for asylum seekers in EU countries could increase by 0.05 and 0.1 percent of GDP in 2015 and 2016, respectively, compared to 2014. These estimates are highly tentative, reflecting, in particular, uncertainty over the number of asylum seekers. Austria (at 0.08 and 0.23 percent of GDP), Finland (at 0.04 and 0.7 percent of GDP), and Germany (at 0.12 and 0.27 percent of GDP) are expected to shoulder the largest spending increases in 2015 and 2016, respectively, relative to 2014.

Table 1. Fiscal Cost of Asylum Seekers 2014 – 16, (% GDP)

	2014	2015	2016
Austria	0.08	0.16	0.31
Belgium	0.07	0.09	0.11
Croatia	0.002	0.09	0.11
Cyprus	0.003	0.12	0.012
Czech. Rep.	0.0	0.0	0.02
Denmark	0.24	0.47	0.57
Finland	0.09	0.13	0.37
France	0.05	0.05	0.06
Germany	0.08	0.20	0.35
Greece	n.a. ³²	0.17	n.a
Hungary	0.0	0.1	0.0
Ireland	0.03	0.04	0.05
Italy	0.17	0.20	0.24
Luxemburg	0.05	0.09	0.09
Netherlands	0.10	0.18	0.23
Serbia	0.00	0.06	0.1
Spain	0.006	0.006	0.03
Sweden	0.3	0.5	1.0
UK	0.015	0.016	n.a

³² No article by IMF staff estimates based on authorities' information and/or other sources.

5.1.2 To illustrate the short-run economic impact of the current surge in asylum seekers, a simulation has been conducted using the EUROMOD model.³³

In the simulation, two simultaneous “shocks”, one to the size of the population and one to government expenditure capture the effects of the asylum seekers. The assumed change in population is calibrated to reflect the expected magnitude of the inflows in 2015 and the assumption that large inflows will continue through 2016–17 and peter out thereafter. The change to the fiscal baseline captures the anticipated fiscal cost of supporting the asylum seekers (see above). Among the key assumptions are the following:

- **Population** - The assumed annual increase in population is of 0.15 percent of the EU total population (or 0.8 million) in 2015–17 and 0.1 percent in later years.³⁴ It is assumed to take up to two years for the refugees to become eligible to work. Once eligible to work, refugees have a lower participation rate than natives—a gap of 5 percentage points (pps) initially, gradually declining to 3 pps by 2020—and a higher unemployment rate—a gap of 15 pps initially, gradually declining to 12 pps by 2020.

- **Fiscal** - As discussed above, in the short term the inflows result in additional government spending and fiscal transfers. The direct fiscal costs include costs for all individuals in the asylum process (while not eligible to work) for up to two years as well as financial support for rejected applicants for one year. For the EU, these direct fiscal costs amount to about 0.1 percent each year in 2015–17. Additional fiscal costs related to social transfers and unemployment benefits for accepted refugees who remain unemployed are endogenously generated in the model. All associated fiscal costs are assumed not to be offset by new fiscal measures, such as cuts in other expenditures.

5.1.3 The expected initial effects on aggregate EU GDP are positive but small, with a more significant impact on the countries where the refugee inflows are concentrated. Relative to the baseline, the level of GDP is lifted by about 0.05, 0.09, and 0.13 percent for 2015, 2016, and 2017³⁵ for the first year; the output impact is entirely due to the aggregate demand impact of the additional fiscal spending. Labor supply is increasing as well, but the effect on potential GDP takes time to unfold. The impact is quite different across countries, reflecting the asymmetric distribution of the asylum seekers relative to countries’ own population. By 2017, the

³³ EUROMOD is part of the IMF’s Flexible System of Global Models (FSGM) capturing the global economy. FSGM is a semi-structural model: private consumption and investment are micro-founded; trade, labor supply and inflation are reduced form; supply is determined by an aggregate Cobb-Douglas production function. The model only has one type of labor, so that productivity differences between refugees and natives are not captured. See Andrieu and others (2015) for more details.

³⁴ Based on an inflow of 1.3 million first-time asylum seekers annually from 2015–17, tapering off afterwards, coupled with a 40 percent rejection rate.

³⁵ The scenario assumes that monetary policy in the EU will remain unchanged relative to the baseline. However, with a more supportive monetary policy, which could be warranted if the labor supply expansion lowers inflation, the output impact would be slightly greater.

largest impact is in Austria, with GDP rising by 0.5 percent, followed by Sweden (0.4 percent) and Germany (0.3 percent).³⁶

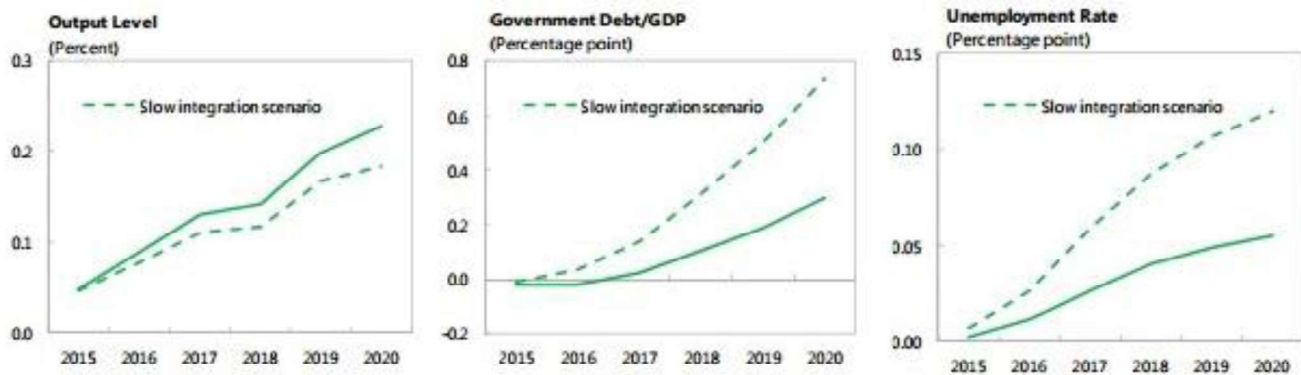


Figure 4. Impact of Refugee Inflows (Deviation from baseline scenario)

6. Labor market impact and absorption of immigrants

The labor market performance of refugees may be less favorable than that of other migrants, particularly in the short run, while their asylum application is being considered, asylum seekers often face greater legal barriers to employment (Hatton 2013). Furthermore, while economic immigrants—by definition—choose their destination to maximize employment outcomes, refugee's primary goal is to secure personal safety. It should be noted, however, that the current refugee have a strong preference for destinations with low unemployment rates, such as Germany, Austria, and Sweden.

Also it is a strong fact that Immigrants born in Afghanistan, Iran, Iraq, Syria, Somalia, and the Balkan countries are on average less educated than the native population or other immigrants. As a consequence they are forced to get a job, that most of the time has physical character, but less paid compared to other jobs that are computer and other intellectual skills based.

6.1 Immigrants typically integrate slowly in the recipient countries' labor markets

In Europe and other advanced economies, immigrants have, on average, lower participation rates, employment rates, and wages than natives. The earning and employment gaps are particularly pronounced in the years immediately after arrival and diminish with time spent in the host country, as immigrants improve their language skills or obtain more relevant job experience. In addition, there is heterogeneity in labor market performance. Immigrants from advanced economies or with better initial language skills often do better than other groups. Female migrants and refugees have significantly worse labor market outcomes, especially in short run.

³⁶ Based on inflows of 86, 107, and 413 thousand first-time asylum seekers annually from 2015–17 for Austria, Sweden and Germany, respectively, coupled with a 40 percent rejection rate.

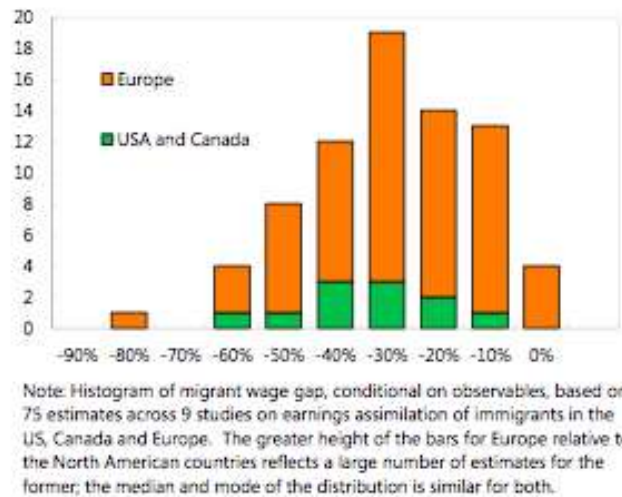


Figure 5. *Immigrant Wage Gap: Distribution of Estimates in Select Studies*

6.2 The condition of the labor market at the time of entry can affect the speed of labor market integration

When immigrants arrive in a period of high local unemployment, their employment rates and wage assimilation have been found to suffer for many years (Äslund and Rooth 2007). This is especially relevant given the slow recovery of many European economies from the global financial and sovereign debt crises, although asylum seekers' revealed preference for host countries with low unemployment rates alleviates this concern to some extent.

6.3 Increasing the overall flexibility of the labor markets could improve refugees' integration in the workforce

Excessive employment protection significantly reduces the likelihood of exiting unemployment, particularly for those workers whose productivity is a priori uncertain, such as refugees (Blanchard, Jaumotte, and Loungani 2013). A high statutory minimum wage may also prevent from hiring low-skilled workers, who are likely to be overrepresented among the refugee population. While empirical evidence remains scarce, existing studies suggest that immigrants' employment rates and the quality of the jobs they hold are higher in countries with low entry level wages, less employment protection, and a less dualistic labor market (Aleksynska and Tritah 2013; Bisin and others 2011; Ho and Shirono 2015). Removal of some barriers to employment would be helpful. For instance, in Austria and Germany, the obligation should be dropped for employers to prove that they were unable to find a so-called "preferred employee" (that is, a national of an EU country, an EEA country, or a recognized refugee) for a job before offering the job to an asylum-seeker with a work permit.

6.4 Immigrants may affect the labor market outcomes of native workers through three main channels

- *Labor supply effect.* Large immigration flows may have an adverse effect on the employment and wages of existing workers if migrants have similar skills to the native labor force. The more different the immigrants' skills are with respect to the existing workers, the smaller natives' employment displacement and negative wage pressure from migrants' integration into the labor force. (Borjas 1995)
- *Aggregate demand effect.* The increase in population will occur hand-in-hand with greater demand for goods and services and, as firms increase output, labor demand. Over the long run, it should also spur more investment (Peri 2010a, 2010b). The rise in aggregate demand counteracts some of the adverse wage effects of the labor force expansion.
- *Allocation of resources, product mix and technology effects.* Immigration may lead to changes in the mix of goods and services produced. It may spur change in the occupation and industry composition of the labor force, or alter production technologies within industries and occupations. For example, Israel's high-tech industry benefited from high-skilled migrants from the former Soviet Union.

7. Long-Term Fiscal Impact

What determines the net fiscal impact of immigrants?

7.1 The net fiscal impact of migrants is mostly driven by their success in the labor market. Assessing the fiscal effects of immigration requires a comparison between taxes paid and other fiscal contributions made by migrants, and the costs of services and benefits used by them. The resulting net fiscal impact largely depends on how migrant's fare in the labor market, which, in turn, is linked to individual characteristics such as skills and age as well as the state of the business cycle, as discussed above. Since all of this is also true for natives, it is often useful to compare the fiscal impact of migrants with that of the rest of the population.

7.2 Immigration can also affect the use of fiscal resources by natives

Fiscal accounts may worsen because of displacement effects—for example, if the inflow of migrants increases natives' unemployment rate (and, thus, the unemployment benefits bill), or lowers their wages (and related taxes). This effect can be mitigated, however, if immigration leads to a relative increase in the income from capital accruing to natives (Borjas 1999). In Spain, the rapid immigration in the early 2000s buoyed the personal services sector, which had a positive impact on female labor market participation (Conde Ruiz, Ramón Garcia, and Navarro 2008).

7.3 The generosity of the benefit system also matters

When they first arrive, asylum seekers receive accommodation, subsistence, as well as integration support (such as language classes). Moreover, they are often not allowed to work initially, or may do so only under restrictions, until their legal status is decided. This tends to lower their net fiscal contribution relative to those of other migrants and natives. After they receive asylum, if they find work, refugees pay taxes and social security contributions under rules that are broadly similar to those of other migrants or the native population. If they are not working, refugees receive welfare benefits, although in some cases they are not entitled to the same benefits as natives. Thus their net fiscal contribution also depends on the generosity of welfare benefits, which varies a lot across EU countries.³⁷

Stylized facts from past experience

7.4 Immigration tends to be associated with a small overall positive contribution to the public finances, but the range of estimates is wide

A recent cross-country study by the OECD (2013), representative of the larger literature, suggests that during 2007–09, the average fiscal contribution of the migrant population in advanced economies amounted to 0.35 percent of GDP, with most country results falling between ± 1 percent of GDP. However, by focusing on a static snapshot of the existing stock of immigrants, these numbers may not provide information about the expected performance of future immigrants.³⁸ Neither do they tell us about the long-term fiscal effects or any indirect impact stemming from the broader effect of immigration on the economy.³⁹

³⁷ Reliance on welfare may be exacerbated if refugees actively select destination countries where the welfare provisions are more favorable (“welfare shopping”). Current mobility regulations (for example, on the freedom of movement and the portability of social benefits) limit “welfare shopping” opportunities in the EU. See Razin and Wahba (2015) for a recent discussion of the European case.

³⁸ The static approach used here is simple and based on readily available data, especially tax and social contributions and use of benefits. As such, it ignores that net fiscal contributions change over an individual’s life span (see below). Dynamic approaches take this into account but require more assumptions, for example about future wages and retirement.

³⁹ The analysis includes indirect taxes paid by migrants as well as the cost of education, health, and ALMPs. It excludes, however, the cost of providing public goods, such as defense

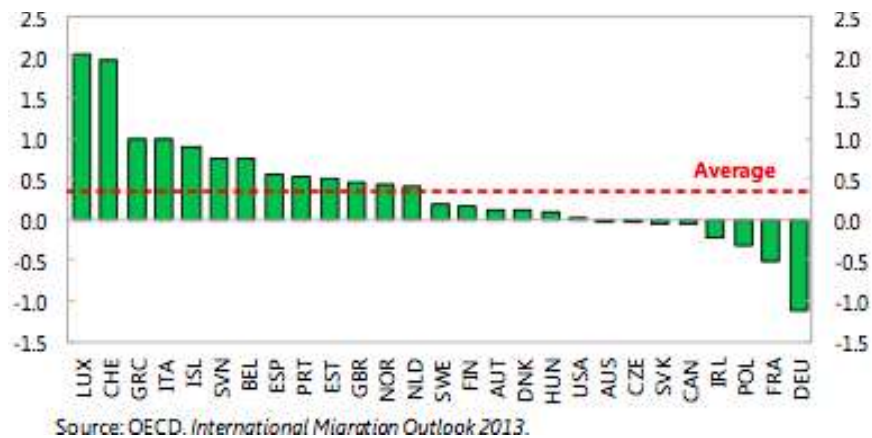


Figure 6. *Estimated Net Fiscal Impact of Immigrants, 2007-09 Average (% GDP)*

7.5 There is no clear link between the number of immigrants and their net fiscal balance

Excluding outliers such as Luxembourg and Switzerland, there is no correlation between the net fiscal impact of immigration in terms of GDP at a point in time and the share of immigrants in the population, which suggests that other factors than the number of immigrants are playing a role.

7.6 The fiscal impact of immigrants changes over their lifetime, so the age- structure of the immigrant population is a key determinant of its net fiscal impact.

Like native workers, immigrants have a weaker net fiscal balance at young and old age and a stronger net contribution during their working-age phase. Thus, the relatively large fiscal cost of the immigrant population in Germany in 2007–09 partly reflects the high proportion of immigrants who were pensioners at that time. Similarly, in Denmark the difference between the negative fiscal contribution of non-Western immigrants and the positive contribution of Western ones can be explained by the different incidence of pensioners in these two groups (Hinte and Zimmermann 2014). Relative to natives, immigrants' net present value of expected future contributions turns positive later, peaks at a lower level, and often turns negative earlier. The figure above illustrates this pattern as reported in a recent study using a dynamic approach for Germany (Bonin, 2014).

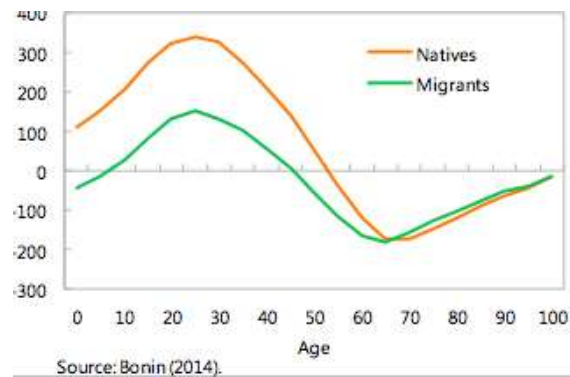


Figure 7. Germany: Present Value of Expected Future Net Fiscal Contribution, by Age

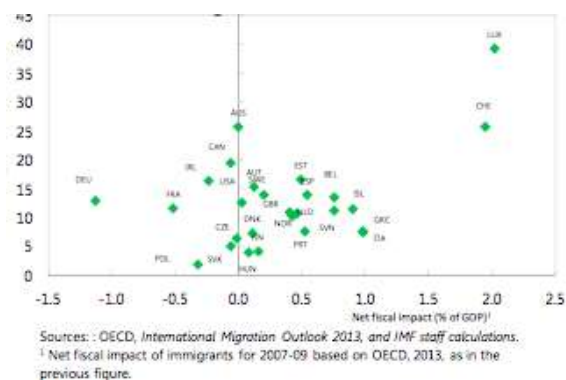


Figure 8. Immigrants and Net Fiscal Impact of Immigrants, 2007 – 2009 Average

7.7 Refugees' fiscal contribution tends to be less favorable than that of economic immigrants.¹⁷⁴ For example, in Australia humanitarian immigrants have a negative fiscal impact during the first 10–15 years, whereas economic migrants have a positive contribution. Although the fiscal impact of humanitarian immigrants turns positive at later stages, their overall impact over the lifecycle is still negative (OECD 2013).

7.8 The net fiscal contribution of the current refugee wave is difficult to predict. As discussed, the short-term cost of caring for the incoming refugees could be sizable for some countries. In the medium and long term, their fiscal impact—like that of natives—depends on a number of factors. In particular, there is considerable uncertainty regarding the expected number and composition of the incoming refugees, how many of them will be allowed to (or will want to) stay in the longer term, or how fast and successfully they will integrate into the labor market.

- That said, the new immigrants are expected to be *younger* and have *higher fertility rates* than natives, which would point to broadly positive net fiscal contributions in the longer term, including through their inclusion in public pension systems.

¹⁷⁴ In some countries, this partly reflects the existence of legal obstacles preventing refugees from starting to work quickly upon arrival.

- As discussed above, information on the *education* and *skills* of recent EU immigrants is scarce. To the extent that the skill mix is less favorable than that of the current immigrant stock or natives, fiscal contributions will be relatively lower.
- Importantly, with *unemployment* being high in a number of European countries, labor market integration of refugees in those countries might take longer than otherwise, which would tend to lower the lifetime contributions of immigrants as well as natives. It should be noted, however, that asylum seekers—and immigrants in general—tend to choose countries with better economic and labor market prospects and relatively low unemployment rates.

7.9 The impact of the refugee inflow on pension spending is likely to be favorable, but small.

The 2015 Ageing Report (European Commission, 2015) examines the effect of population aging on pension and other government expenditures assuming no policy changes in the pension systems. One of the variants to the baseline scenario shows that a reduction in immigration flows by some 210,000 individuals per year over 2015–30 would result in higher pension spending of 0.1 percent of GDP by 2030. Applying this relationship in reverse to the refugee baseline scenario used for the macroeconomic model simulations, and assuming that the effect is linear, and that the refugees have similar characteristics as the average immigrant in the EC scenarios, pension expenditures by 2030 would decline by about 1/4 of a percentage point of GDP for the EU as a whole.¹⁷⁵ The effect would be different across countries, of course, with countries receiving the largest inflows experiencing the strongest reduction in pension outlays (Figure 9).¹⁷⁶ The projected increase in refugees would also help shave healthcare and long-term care spending, as working age individuals rely less on these services than elderly ones, though the EC's Ageing Report does not provide a quantification under alternative migration scenarios. The favorable effect on health care, however, is likely to be smaller than that on pensions, since refugees will start using healthcare services immediately as they arrive, while they will claim pension and long-term care benefits only when they reach retirement age.

¹⁷⁵ This may be regarded as a favorable estimate of the impact of refugees on pension expenditures, since it is likely, as discussed previously, that refugees' labor market outcomes are worse than that of other immigrants. Clements and others (2015) provide estimates of aging costs under a baseline and high migration scenario for a group of highly developed countries. They find that higher immigration reduces pension and health care costs in these countries, though they also point out that the increase in immigration necessary to keep the dependency ratio constant over time would be too high to be realistic.

¹⁷⁶ Some EU countries where dependency ratios are forecast to rise quickly absent immigration (Italy, Portugal, Spain, and Greece) are not receiving large refugee inflows at the moment (Figure 7).

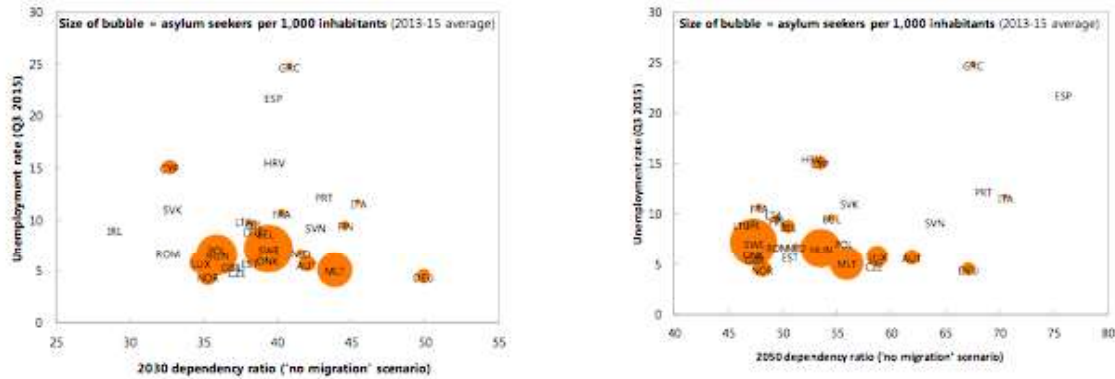


Figure 9. *Asylum Seekers and the Aging Problem (Migrants tendency is to go where unemployment is low and also in counties that are characterized by Syndrome of Aging)*

The binomial: low unemployment and population aging are the two “magic components” that the refugees are looking for. They, in general are a young nations as a consequence of high level of natality and this is what European Union wants.

Conclusions

1. **Flexibility in product markets can also help integrate refugees.** Easing barriers to starting a new business—for example through simpler regulatory and administrative procedures for new firms, ensuring equal market and job access, access to finance, and start-up support—could help newcomers and natives alike become entrepreneurs by tapping a growing number of business opportunities. Flexibility also helps native workers adjust to immigration surges, by moving to more highly skilled jobs that are complementary to those taken up by the immigrants.
2. **The EC says 3 million people could arrive in Europe** by the end of 2017, and add about 0.25 percent to the bloc's GDP.
3. **High entry wages and “inactivity traps” are a barrier to refugee integration.** Low education and poor linguistic skills likely limit the attractiveness of refugees on the job market, especially soon after arrival. The lack of job search skills and local informal networks constitute additional obstacles. Temporary wage subsidies for employers who hire refugees have proved to be effective in overcoming barriers to employment. Allowing for temporary, targeted exceptions to minimum or entry level wages or other labor market regulations for refugees may also be helpful where such regulations are tight. However, the benefits of avoiding prolonged exclusion from the labor market should be weighed against the risk of creating labor market dualities that may be difficult to unwind. Incentives to find work may also need to be strengthened through tax/benefit reforms that make-work pay. Easing restrictions on the geographical mobility of refugees could also allow them to go where labor market prospects are more favorable.
4. **Rapid labor market integration of the refugees has important economic, fiscal, and social benefits.** Quick labor market integration can unlock the potential economic benefits

of the refugee inflow. It would also minimize the risk of social exclusion for the newcomers and maximize their net contribution to the public finances in the longer term. The refugees' successful labor market integration could also help alleviate the fiscal effects of population aging, although the effect is likely to be small and will not be a panacea for demographic problems. At the same time, rapid integration policies, including education, housing and ALMPs, entail some upfront fiscal costs.

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