

The evidence to guide Europe in the refugee crisis

Alessio JG Brown is Director of Strategy and Research Management at the independent Institute for the Study of Labour (IZA) in Bonn, Germany, the world's largest research network in labour economics with 1,500 members from over 50 countries.

Up until recently, many Europeans knew images of large refugee camps and desperate families trying to cross borders only from TV screens. The unprecedented influx of refugees into Europe, the largest since World War II, have made these scenes reality in many European neighbourhoods. Feelings of empathy and shock are increasingly joined by worries about the consequences the refugee crisis will have on society, welfare institutions and labour markets. In the EU these worries drive public opinion and political action, causing closings of Schengen borders and the resistance against a fair allocation of refugees among EU member states.

Scientific evidence proves that many of these worries are unfounded. For example, various empirical studies point to the economic opportunities of immigration and on this basis suggest ideas of how Europe could achieve a fair and effective allocation of migrants that preserves European principles and European unity. The empirical findings should be taken into account in the vein of evidence-based policy making by European policymakers in their efforts to establish a functioning integration policy.

Contrary to existing evidence reviewed by Amelie Constant (Temple University) for *IZA World of Labor* in recent weeks many European tabloids spread the preconception of the job-stealing immigrant. Giovanni Peri (University of California, Davis) and Mette Foged (University of Copenhagen) further debunk this myth in a study on how the massive influx of immigrants to Denmark during the period 1991-2008 impacted the labour market outcomes of low-skilled natives.

Contrary to popular belief, the researchers do not find an increase in the probability of unemployment for the unskilled Danish population. Instead, the findings suggest that the immigrants, who in this case were mainly refugees from Former Yugoslavia, Somalia, Afghanistan and Iraq, caused an *"occupational upgrading and specialization"* of native Danish employees. While immigrants are initially restricted to occupations and jobs consisting of manual tasks due to their language problems, natives leave these jobs by specializing in more complex occupations with a primarily interactive task content. Accordingly, the immigrating refugees had a positive effect on wages and mobility of the native low-skilled population.

Immigrants 'push up' native employees

To test such effects on a larger scale, Peri examined the effect of immigrants on the career of natives using data from eleven European countries in a co-authored study. The results point in the same direction: in countries and occupations with larger immigrant competition, natives are pushed to faster occupational upgrades and towards jobs using more sophisticated skills, requiring higher education and yielding higher wages. Natives are more likely to undertake entrepreneurial activities in response to larger immigrant competition. This implies that immigrants 'push up' natives in the labour market, and the overall effect on wages and income of natives is small but usually positive. While some natives may



still be crowded out, new job opportunities are created at the same time as foreigners take jobs complementary to those of natives.

What is the evidence on refugees? In a recent article for *IZA World of Labor*, Semih Tumen (Central Bank of the Republic of Turkey) reviews past experiences of large refugee inflows and calls for the integration of refugee workers into local labour markets to avoid negative short-run impacts.

However, actual impacts depend on the local institutional settings. Another study co-authored by Tumen analyzes the effect of the recent inflow of Syrian refugees into Southeast Turkey. While wages were unaffected, the influx did in fact increase unemployment among the Turkish residents. But a closer look reveals that the locals who lost their jobs worked in Turkey's large informal sector. Here, the refugee inflows reduced the informal employment ratio by approximately 2.2 percent.

The authors conclude that the prevalence of informal employment in Turkey has amplified the negative impact of Syrian refugee inflows on natives' labour market outcomes. For refugees, the informal sector is the only place they can find work, as the Turkish government does not give out working permits to refugees.

Open up European labour markets to immigrants

The Turkish case shows the importance of considering granting immigrants access to local labour markets. Many of those who come to Europe for humanitarian reasons are endowed with valuable human capital that can strengthen Europe's economy. Many have good skills and professional qualifications, and – as

“For Europe to master this humanitarian challenge without surrendering its core values, it needs to resort to smart solutions based on empirical evidence”

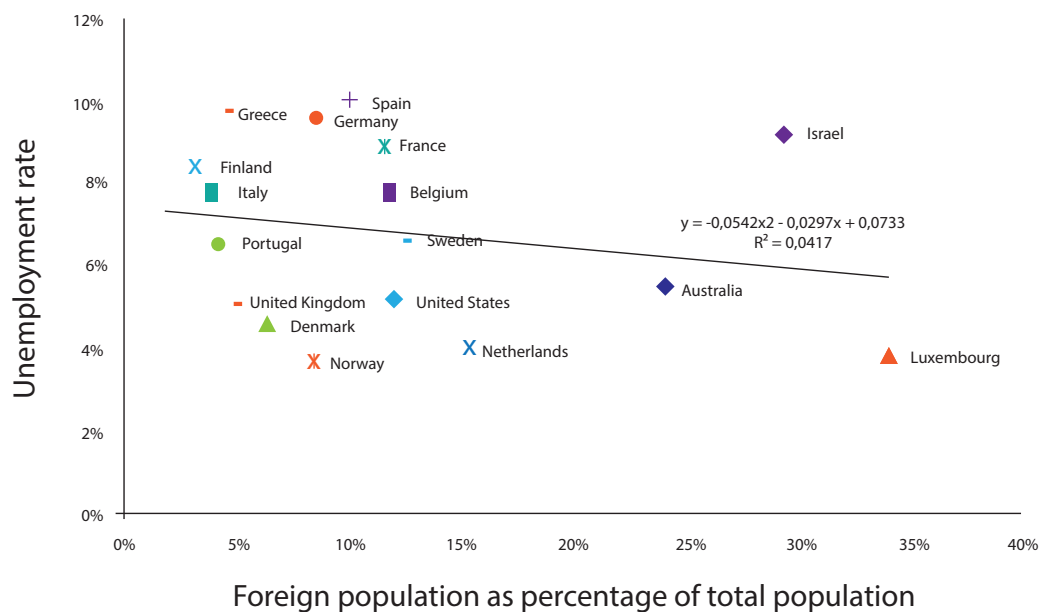
Germany's President Joachim Gauck put it – they are “*highly mobile, flexible, multilingual, motivated and willing to take risks.*” But until recently, they have been effectively barred from seeking employment. In line with what IZA experts have long demanded, Germany has now eased the restrictions on labour market access for refugees. This gives them a chance to earn their own living, to develop their professional skills further, and to achieve social integration. The next logical step is to allow qualified refugees to enter into the regular immigration process.

The EU Commissioner for Migration and Home Affairs, Dimitris Avramopoulos, is well advised to further develop the EU Blue Card Directive along these lines. After all, his declared goal is to “*help Europe address skills shortages and attract the talents it needs.*”

But for now, Brussels does not seem to focus on the potential economic opportunities of the refugee influx. Furthermore, a sustainable reallocation mechanism based on a quota system is still far from becoming reality. Under the current circumstances, the share of inflows borne by EU member



Figure 1. There is no correlation between unemployment and immigration rates for OECD countries



Notes: Due to differences in national statistical data, Germany, Greece, Italy, Luxembourg, Portugal and the UK define foreign by nationality; the other countries define it by birthplace. French data are for 2005-2007 only. Source is OECD statistics (<http://stats.oecd.org/>)

Source: Constant, A, Do migrants take the jobs of native workers? IZA World of Labor 2014: 10 doi: 10.15185/izawol.10

states is more than ever heavily skewed to a small number of receiving countries. As the ongoing public discussion shows, this unequal distribution gives rise to general resentment of immigration and negative attitudes towards asylum seekers in particular.

Ever since the beginning of the refugee crisis, migration expert Klaus F Zimmermann (IZA) has repeatedly called for a transparent quota system guaranteeing a balanced distribution of asylum-seekers across EU member countries. Countries like Sweden and Germany have accepted above-average numbers of asylum applications over the past years, while France, the UK and the central and eastern European members have been rather reluctant. The definition of a 'fair share' should take into account both the population and the economic strength of each country. To handle the massive coordinative task, the European Asylum Support Office could be equipped with new competencies. In the long term, all related issues should be bundled under the responsibility of a European commissioner for refugees.

Tradable refugee quotas to better coordinate national asylum policies

How exactly refugees could be fairly allocated is shown in a recent study by Jesús Fernández-Huertas Moraga (Autonomous University of Madrid) and Hillel Rapoport (Paris School of Economics). The authors propose an EU-wide market for tradable refugee quotas to better coordinate national asylum policies. While offering asylum to refugees with valid claims is considered an international public good, it constitutes a significant financial burden on the receiving country.

The authors show that a market mechanism could efficiently distribute immigrants to the country with the lowest costs

(covering all the expenditures that are generated by hosting refugees: direct costs of accommodation, administrative costs, and costs for social and political distress). The study couples this system with a matching mechanism that links countries' preferences, such as cultural and linguistic inclinations. The resulting solution could lead to a fair distribution of the burden, which would likely increase public acceptance and reduce the probability of social distress created by the increasing asylum-seeker flows.

The refugee crisis represents one of the biggest challenges for European societies, European labour markets and the unity of the EU. For Europe to master this humanitarian challenge without surrendering its core values, it needs to resort to smart solutions based on empirical evidence. This implies a fair and effective allocation of refugees among all member states and granting refugees access to European labour markets.

By doing so, Europeans would not only strengthen their own economies: Enabling refugees to build up their human capital would also give new momentum to the less developed and disadvantaged regions of the world. Although many political refugees are unlikely to consider going back home in the medium run, remittances to their countries of origin would substantially increase with their integration into European societies-thus creating a win-win-win situation for the refugees themselves, for those left behind, and for the host country. ■

Empirical evidence presented on the IZA World of Labor platform (<http://wol.iza.org>) can guide Europe in transforming the refugee crisis from challenge to opportunity. It is a free, comprehensive and reliable resource, which condenses expert knowhow on labour market policy issues for decision-makers worldwide.