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GDP AND REFUGEES

AN ECONOMIC ARGUMENT FOR ACCEPTING REFUGEES

BY MICHAEL JARMAN

ONE YEAR AGO,

the United Nations Refugee Agency announced there were 65.6 million displaced people worldwide (Edwards, 2017), meaning 1 in every 113 persons is a refugee. The world needs to find answers to two questions, where will all these people go, and how will we take care of them all?

Those questions are asked by policymakers as they consider how many refugees they can accept into their home countries. Balking at the sheer size of the need, they often cut back on their acceptance rates. Many argue their countries can't handle such a tremendous financial burden and accepting a more significant number of displaced persons would only harm their economy. Their argument is flawed, however, because it fails to consider displaced people as a resource, who, when injected into an economy, will cause both short-term and long-term growth.

When considering how many refugees to accept, policymakers must perform a cost-benefit analysis of the situation. In doing so, they will find that, although helpless refugees will unavoidably start out as a burden, they will bring about long-term gains which will outweigh the initial costs; provided they are not economically inhibited by short-sighted policies.

COSTS

Accepting refugees comes with two types of costs; sustaining-costs, and integration costs. Sustaining costs, which are much larger than integration costs, are the expenses associated with providing necessities, like food and housing, to displaced persons. As an example of the scope of these costs, the EU spends about \$12,900

per refugee in sustaining costs (Legrain, 2016) and the EU once accepted approximately 300,000 refugees in a single year (BBC, 2016). Considering these numbers, a picture begins to emerge of the enormity of the economic burden sustaining costs represent.

The purpose of integrations costs is to help refugees become part of their new communities through programs such as language classes, community events, and job seekers assistance. A recent State Department report found the most significant indicator of financial success among refugees was the number of informal connections they had with non-refugees in their neighborhood (U.S State Department, 2017), thus the more integrated they become, the more likely they are to succeed financially.

Governments often fall into the trap of refusing to spend money on integration-costs, since they have already spent so much on sustaining costs. They ironically exacerbate their long-term expenses by refusing to provide refugees with the tools they need to become self-sufficient.

BENEFITS

Investing in refugees will bring about substantial economic returns in the long run. The German Institute of Economic Research has calculated that Germany will experience a .5% increase in GDP within ten years as a direct result of accepting more refugees than any other European country (Fratzscher & Junker, 2015). Their research (figure 1) shows even in the most pessimistic scenario Germany's refugees will have a net positive effect on Germany's economy within that ten-year span.

The increase will come from three primary sources:

- Increasing demand created by refugee spending
- The positive effect of refugees on the job market
- Immigrant diversity

DEMAND DIVIDENDS

Government spending on both sustaining-costs and integration-costs affects the economy in a similar manner to a stimulus package. The money is distributed at the grassroots level throughout the economy, directly benefiting those who live and work closely with the refugees first. One Harvard researcher found the economic activity of refugee camps increases the income per-capita of their host communities by as much as a third (Taylor, 2016). The IMF calculated that money spent on refugees increased total EU GDP by as much as .13% in 2017 (Aiyar, et al., 2016).

In addition, refugees provide even more significant economic returns once they increase their spending power by entering the workforce. The IMF predicts the increase in spending, caused by the integration of refugees into the workforce, could raise total EU GDP by .25% by 2020 (Aiyar, et al., 2016), an additional increase of .12%.

REFUGEES AND THE JOB MARKET

Opponents to accepting refugees often make two contradictory claims made about how refugees affect the job market. One is that refugees will not be able to get jobs and therefore will remain a burden to society; the other is that refugees will get jobs but will flood the job market and lower the pay of native workers. Neither is true. While language barriers do make it harder for refugees to get jobs, they compensate by being willing to participate in 4D jobs; that is, jobs which are dirty, difficult, dangerous,

or dull (Legrain, 2016). These jobs are necessary for society to function but are typically considered distasteful.

A longitudinal study conducted in Denmark found that refugees mostly filled unskilled or low skilled positions within the economy, but the influx of low skilled workers had no adverse effect upon the wage levels or employment rates for locals. In fact, the study found that when refugees filled all these low skilled positions, it pushed local workers into higher paying jobs with greater mobility (Foged & Peri, 2013). Economists conducted a similar study in Turkey, which has received more than 2 million refugees since 2011 and showed that when refugee saturated the low-skill job market, they created higher paying job opportunities for locals. Because of refugee integration into the job market, the average wage of a formal Turkish worker increased by 5% (Del Carpio & Wagner, 2015).

Refugees don't just take jobs; they also create jobs (Legrain, 2016). Refugees spend the money they earn in these low skilled jobs, and the resulting increase in demand creates the need for more workers in more positions. So, while locals are often forced out of low-skilled jobs by refugees, they are forced into much more profitable work (Foged & Peri, 2013).

DIVERSITY AND CREATIVITY

Refugees have multi-cultural backgrounds and distinctive experiences that provide each of them with a unique perspective (Fratzscher & Junker, 2015). These differences have led to an unusually high number of successful refugee entrepreneurs. The Kauffman Foundation produced a study on immigrant entrepreneurs (both refugee and non-refugee) showing immigrants to be twice as likely to start a business than a U.S. native (Legrain, 2016). More than 40% of the Fortune 500 companies were founded by either a first or second-generation immigrant (Legrain, 2016). Some notable refugee entrepreneurs include Sergey Brin, a refugee from the Soviet Union and co-founder of Google, Jan Koum, a

refugee from Ukraine and co-founder of WhatsApp, and Andy Grove, a refugee from Hungary who helped found Intel.

SUGGESTED POLICIES

PROVIDING SUPPORT

Direct Government support needs to be more effective than it currently is. For example, organizations should give cash to refugees instead of the opting for the much more common method of "in-kind" support. They provide refugees with necessities, such as food or medicine, instead of by giving them cash and allowing them to purchase necessities themselves. Cash support is much more efficient because refugees will spend the money they receive at local businesses, increasing the quality of life for their host communities. A Harvard study conducted in Rwanda found when refugees were given cash directly, the income of host country households increased by as much as \$69 per refugee (Taylor J. E., 2016).

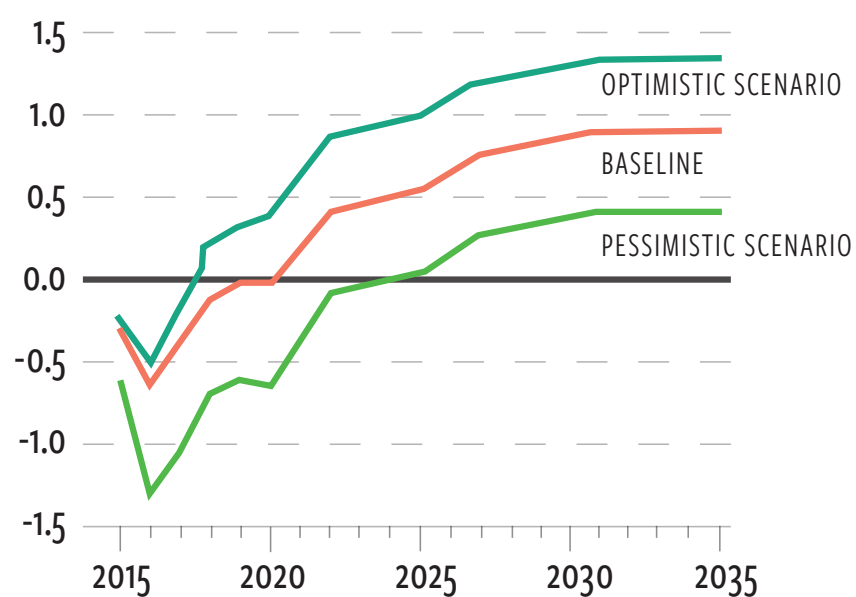
INTEGRATION

The most pervasive barrier to refugee integration is non-inclusive job markets. Only four countries currently allow asylum seekers to apply for jobs uninhibited, and many states will not let them work until they have dealt with 1-3 years' worth of red tape (International Monetary Fund. European Dept., 2016). These policies increase the amount of time and money that government must spend on sustaining refugees while increasing the amount of time it takes for refugees to become contributors. In contrast, refugees in Turkey are allowed to contribute to the economy almost as soon as they enter the country, leading to the previously mentioned increase in Turkish wages.

Implementing job training programs will also increase integration by streamlining the process by which pre-trained refugees could begin working in

FIGURE ONE

INTEGRATING REFUGEES INTO A COUNTRY – POSSIBLE SCENARIOS FOR ECONOMIC GROWTH



Source: Marcel Fratzscher, and Simon Junker, "Integrating refugees: A long-term, worthwhile investment," DIW ECONOMIC BULLETIN, 12 November, Volume NO 45+46, pp. 616-612.

professional careers. At least 26% of the refugees in the EU have received at least a university education before displacement (Taylor J. E., 2016), and would be able to provide valuable service after being trained on local policies and language. Training an educated refugee is also extremely cost-effective. For example, the cost of preparing a medically trained refugee to work in the U.K. is \$25,000, which is only 10% of what it costs to train a new British doctor (Legrain, 2016).

CONCLUSION

Taking in refugees does require a substantial financial investment. Caring for hundreds of thousands of people, many of whom can carry all their possessions on their back, costs a lot of money. When considered against the long-term benefits, however, the initial cost is revealed to be an investment. This investment can bring about a higher quality of life for everyone involved if it is nurtured and sustained by prudent and integrative policymaking.

Many countries will miss out on this great opportunity by not accepting refugees, or a country will accept refugees but will struggle under the economic burden of sustaining refugees. Investing governmental funds solely into sustaining-costs instead of integration costs will perpetuate a state of dependency within refugee communities. However, those countries that accept refugees and then encourage integration by paying integration costs and by relaxing work policies will see immediate and long-term dividends.

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