Economics
The Open-Access, Open-Assessment E-Journal

Vol. 12, 2018-33 | May 28, 2018 | http://dx.doi.org/10.5018/economics-ejournal.ja.2018-33

The economic effects of refugee return

Uri Dadush

Abstract

The recent surge in the number of forcibly displaced persons who cross international borders in search of protection has prompted interest in evaluating policies that achieve the possible "end points" of the phenomenon. These are the integration of the forcibly displaced persons in the country of destination, relocation in a third country, and return to the country of origin. The focus of this paper is on the third aspect, and more specifically on the appropriateness of return policy viewed from an economic perspective. Although the vast majority of forcibly displaced people is found in developing countries, the object of this paper are the return policies of advanced countries.

(Published as Global Solutions Paper)

JEL F22 F66 J61
Keywords Refugees; return; migration; integration; displacement; forced; repatriation; deportation

Authors

Uri Dadush, Senior Fellow, OCP Policy Center and Non-Resident Scholar, Bruegel, uri.dadush@bruegel.org

This paper is based on a longer report commissioned by the World Bank's Fragility, Conflict and Violence Department with the support of the German Development Ministry (BMZ) (Dadush, 2017). The paper represents only the view of the writer. He is grateful for comprehensive and very useful comments received on that paper from Marek Dabrowski, Xavier Devictor, Mona Niebuhr, and Kirsten Schuettler, and from peer reviewers, Naila Ahmed, David Kipp, and Hans Timmer. Caroline Bahnson, Rebekah Smith, and Paolo Verme also provided comments on previous drafts. Bingying Wu provided excellent research assistance.

Citation Uri Dadush (2018). The economic effects of refugee return. *Economics: The Open-Access, Open-Assessment E-Journal*, 12 (2018-33): 1–17. http://dx.doi.org/10.5018/economics-ejournal.ja.2018-33

Received February 14, 2018 **Published as Economics Discussion Paper** February 26, 2018
Revised April 30, 2018 **Accepted** May 17, 2018 **Published** May 28, 2018

Introduction

The importance of the return issue in advanced countries is underscored by the surge of refugees into Europe and the political cleavage between those who oppose their entry in the first place and want them returned at the first opportunity, and those who welcome them and support their integration. The return debate is complex and it occurs at four levels: humanitarian, political, legal, and economic. While recognizing this complexity, the paper addresses a relatively narrow aspect of the return question: is it in the *economic self-interest* of advanced countries to return forcibly displaced persons? Viewed through this economic prism, the overall objective of return policy would be to foster living standards and inclusive economic growth in the host country. In the best of all worlds, the return policy of advanced countries would also aim to foster development of the country of origin, and enhance the economic welfare of the forcibly displaced.

In theory, return policy can be neatly divided along two main thrusts – one, encouraging voluntary return by providing financial incentives and other forms of resettlement assistance, and two, establishing the legal and enforcement mechanisms for deportation when necessary. In practice, however, this distinction is often blurred and a broad and less obvious set of measures can be adopted, and are adopted, to encourage return. To start with, countries of destination set targets or limits on refugee numbers and they exercise discretion on whether to grant asylum, as can be seen in the case of Afghan or Syrian refugees. In the case of asylum seekers from Syria, positive decisions to grant refugee status range from 96% or above in most EU member states to less than 60% in Hungary, Italy, and Romania. (ESI 2017). Countries also decide on the duration and complexity of legal procedures governing the granting of asylum and, if at the final instance, it is not granted and the migrant does not leave of their own accord, on the alacrity with which the decision to deport is implemented. Further, countries decide on whether the recognition of refugee status is temporary and contingent under a cessation clause[1] or whether it is permanent. Among the most important measures that influence the decision to return is the granting or withholding of a work permit. While most countries recognize that there are legal obligations and the moral imperative to treat asylum seekers and refugees humanely and try to do so within limited means, there are very large differences in their treatment. That is why in the academic and policy literature experts have begun to distinguish between genuine voluntary return and "nominally voluntary return"[2] or "soft-deportation"[3]. In practice, return policy is difficult to distinguish from integration policy: countries can encourage or even force return by making it hard enough for refugees to integrate. And, vice versa, by facilitating the integration of refugees into labor markets and into society, they can make their return almost unthinkable.

The weaknesses of data on the return of immigrants are well known. Still, I believe that the evidence presented below allows this paper's main conclusion, namely that the costs of hosting asylum seekers and refugees are front-loaded, while the benefits accruing from their integration

[1] Under which refugees can be legally asked to return on grounds that conditions in the country of origin have changed.

[2] Gibbey (2008), cited in Kuschminder (2017).

[3] Leerkes et al. (2017)

into the labor market and the host economy are often significant and typically take many years to materialize. It follows that from the economic perspective their return after a short stay may represent a far costlier option than continuing to invest in their successful integration. No one size fits all, and countries with a flexible labor market, strong investment climate, and a welcoming attitude to immigrants tend to see the economic benefits of refugee inflows materialize faster.

Return of refugees from advanced countries to developing countries is rare

Return is a well-established feature of economic migration, and so is the fact that return rates vary greatly depending on country of origin and destination. However, truly voluntary return of migrants from a rich country to a poor one is a rare phenomenon. Even when turned down for asylum and officially expected to leave, most asylum seekers do not in fact do so. Article 3 of the 1951 Convention prohibits expulsion, return, or refoulement of persons to countries where there is a substantial risk that they will face torture, inhuman or degrading treatment. The voluntary return of refugees (refugees are asylum seekers whose status under the 1951 UN convention has been recognized) is even less common. According to UNHCR, there were 19.5 million refugees in 2014 and only 126,800 returned to their country of origin. These are predominantly refugees that found precarious asylum in Afghanistan, Sudan and Iraq and returned to neighboring countries. The numbers of returnees saw modest increase in 2015 and approached 500,000 in 2016, mainly due to returnees to Afghanistan under pressure to leave neighboring Pakistan.[4]

Historically, much larger numbers of refugees returned to their country of origin, some 17.2 million over 1996–2005. However, return was nearly always from a nearby developing country. A recent World Bank report "Sustainable Refugee Return" (Harild et al 2015) examined 8 case studies of large-scale refugee return, namely return to Afghanistan, Angola, Bosnia-Herzegovina, Burundi, Cambodia, Iraq, Liberia, and South Sudan. In all these cases, except Bosnia-Herzegovina, refugees were hosted mainly in nearby developing countries – often in a precarious condition and under pressure to leave. A notable exception are the 350,000 Bosnian refugees who found shelter in Germany, who were never granted permanent status. In the wake of the Dayton Peace Accords, Bosnian refugees in Germany came under intense pressure to leave, being denied of rights and support. Some 250,000 did so, returning to Bosnia or resettling in third countries.[5]

---

[4] According to Crisp and Long (2016) the last 10 years are best described as "a decade of protracted emergencies." Millions of new refugees have been created as a result of intense violence in Burundi, Central African Republic, Iraq, Nigeria, South Sudan, Syria, Ukraine, and Yemen. At the same time, longstanding conflicts in countries such as Afghanistan, the Democratic Republic of Congo, Myanmar, Somalia, and Sudan have gone unresolved. As a result of these developments, refugee numbers have jumped to an all-time high, while repatriation levels have dropped to an historic low."

[5] http://www.dw.com/en/refugees-reloaded-lessons-from-germanys-approach-to-bosnian-war/a-19021249

These statistics on the return of refugees contrast with those relating to economic migrants among relatively advanced countries. It is estimated, for example, that about 30% of migrants to the United States during the great age of migration 1890–1914, returned, and that return rates varied from around 5% of those originating from Russia, Ireland, and Scandinavia, to about 50% of those originating from Italy. Post-World War II, guest worker programs helped to facilitate large-scale permanent migration within Europe and from countries such as Morocco, Turkey, and Tunisia. These programs collapsed in the wake of the first oil shock in 1973–1975. Since then, legal immigration into Europe from its developing periphery has been tightly restricted, while return/circular migration has been a prominent feature among European countries (Lucas 2005)

These shifting policies have not lead to a decline in the number of migrants in Europe. Immigration, both legal and illegal variety, appears to be driven as much by underlying economic conditions in host and origin countries as by policy. For example, in the difficult years following the oil shocks 1975–1985 the outward flow of the foreign population in Germany exceeded the inflow. In subsequent years, net migration resumed, and – while circular migration persisted – the foreign population in Germany increased from less than 1 million in West Germany in 1960 to 3 million in 1970, 4.5 million in 1980, to 7.5 million in unified Germany in 2000. In recent years, the ebb and flow of migration and its link to the economic cycle has perhaps been most visible in Spain (Dominguez-Mujica et al., 2012).

One reason that return of failed asylum seekers and of refugees (under the cessation clause) is rare is the high cost of implementing forced return, which is often overlooked. An EUobserver[6] probe of some 100 joint return flights coordinated by the EU's border agency Frontex, calculated that on average, it costs €5,800 to deport one individual. The price depends on the destination of the flight, its route, and the number of escort personnel needed.

Why voluntary return of refugees does not happen

A refugee contemplating voluntary return confronts two critical issues, security and livelihood. Many other considerations play a role, of course, such as family links, the ability and willingness to integrate culturally in the host country, the availability of social services, and so on, but personal security and the ability to provide for oneself and the family are the overriding ones. To address the issue of security first, it is helpful to identify three groups of countries that are large sources of refugees: ones that are still mired in war and/or high-intensity civil conflicts, countries where medium-intensity conflict persist and are already in the process of rebuilding, and countries which are not in conflict. According to the Armed Conflict Survey (IISS 2017), high-intensity conflict is defined by frequent (daily) armed clashes between governments, government forces and insurgents, or among non-state armed groups that control territory. Medium-intensity, on the other hand refers to "regular armed clashes between governments, government forces and insurgents" (IISS 2017).

[6] EUObserver, Skyrocketing costs for returning EU migrants, https://euobserver.com/migration/137720

Within the first category, according to the Armed Conflict Survey in 2016 are Afghanistan, Syria, Somalia, South Sudan, and Iraq, while Myanmar, Central African Republic, Democratic Republic of the Congo, and Sudan are in medium-intensity conflict. (Eritrea is not included in the Armed Conflict Survey in 2017). Minorities in Albania, Kosovo and Serbia are often objects of discrimination although countries are not in conflict. The survey illustrates how impractical return is today in the countries in conflict, such as Syria, Afghanistan, and Iraq, and voluntary return in large numbers is difficult to conceive. Historically, insecurity remains a prominent feature over many years even after open conflict has ceased. Even in conflict situations there is return but only when refugees find themselves in even greater peril abroad. This was the case, for example, of the 1.2 million Iraqis who fled to Syria, many of whom returned when an even more threatening civil war broke out in Syria. By contrast, with the important exception of persecuted minorities, return to countries not in conflict as in the Western Balkans is possible.

Focusing next on livelihood, how much would it take to compensate the worker who returns home to a developing country? For example, Pasha and Altaf (1987) estimate lifetime earnings in the Gulf in the early 1980's and compared them to home earnings in Pakistan. Accounting for average age and other observables, they conclude that only if wages of immigrant workers in the Gulf were cut by over 50%, would they induce return. As a broad average, real wages in developing countries are about ¼ those in advanced countries (Pritchett 2017). Applying this benchmark, if the immigrant from a developing country is fully employed throughout their stay and their working time horizon is 25 years, the present value of the immigrant's foregone earnings if he or she returns is approximately $262,000 at a discount rate of 3%. This sum is at least 10 times larger than the highest known grant offered to encourage return and perhaps 100 times larger than the typical grant as reported in a recent report by Gerver (2017). Even this is an underestimate of the foregone earnings on return since the calculation assumes that the immigrant will not receive a pension on retirement in the host country and that he or she places no value on the future earnings of their offspring, which are higher if they stay.

The calculus of a refugee is somewhat different, since refugees take longer to integrate in labor markets than typical migrants and are paid less on average. However, even applying a further discount to expected earnings of 30% (Aiyar et al. 2016) and even if one assumes that the refugee will immediately find a job when they return, the essential message of the calculation does not change, as the difference in the present value of expected earnings remains in the vicinity of $200,000. In instances where the refugee has access to welfare benefits when he or she is not working, as well as to health and education services, those benefits alone may be worth more than what they would earn at home. As already mentioned, the refugee's consideration of security may override the economic calculus anyway.

These calculations employ broad averages. In practice, the differences in earnings streams vary greatly depending on the country of origin and destination. Comparable real wage data is not available but can be approximated using data on per capita income. These are reported in Table 1 for the main countries hosting refugees and their country of origin. The difference in wages between the developing and advanced countries in the sample is likely to be about 15% smaller than is suggested by the data in the Table, reflecting the fact that developing countries tend to have somewhat lower labor force participation rates and a higher labor share in national income than advanced countries (see Dadush, 2017 for a more detailed account).

Table 1: Gross domestic product per capita based on purchasing-power-parity (PPP), US Dollars, 2016

United States	57,436
Sweden	49,836
Germany	48,111
France	42,314
Italy	36,833
Iraq	17,944
Serbia	14,493
Albania	11,840
Myanmar	5,832
Sudan	4,447
Afghanistan	1,919
South Sudan	1,657
Eritrea	1,410
Democratic Republic of the Congo	773
Central African Republic	652
Kosovo	n/a
Syria	n/a

Source: IMF WEO, World Bank World Development Indicators

It is nevertheless clear that among countries that are the source of large numbers of refugees, except for Albania, Serbia, and Iraq, the difference in wages with respect to advanced countries is far larger than the one-to-four benchmark. For example, average purchasing-power-adjusted wages in France almost certainly exceed those in African countries and in Afghanistan by a factor of ten or more.

Income numbers for Syria, the source of the largest number of refugees in recent years, are not available. However, even before the war, Syria's PPP-adjusted per capita income was about 20% of that in Sweden or Germany. By contrast, the difference in wages between Iraq and France may be in the vicinity of 50%, suggesting that a voluntary return to a post-conflict oil-rich Iraq may be a realistic possibility for many Iraqi refugees. Such a course, however, is unlikely in the other countries included in this survey in the foreseeable future. This financial calculation does not exclude the possibility of individuals returning for personal reasons, or the possibility that post-conflict rapid economic growth sustained over many years could materially change prospects in some countries. But the higher-level question we address in this brief remains: is return, whether forced or voluntary, in the economic interest of the host country?

The effect of refugees on growth is often positive and can be significant[7]

Refugees are concentrated in developing countries (Table 2), and relatively few settle in advanced countries. Lebanon, Jordan, and Turkey have seen cumulative net refugee inflows that

[7] This section draws in apart on Dadush and Niebuhr (2016) and Dadush (2014).

exceed 16%, 7% and 3.6% of their population respectively. Although some advanced countries have seen comparably large inflows of refugees in the past, and coped successfully with the challenge,[8] over 2015–2016 most OECD countries received small annual inflows of asylum seekers and refugees, and the total stock typically represents less than 0.5% of their population. In most instances, in advanced countries, the macroeconomic and labor market effect of refugees is small, and that of return, far smaller still.

There are, nevertheless, good reasons to explore these effects, over and beyond the standard economic argument that they must be analyzed at the margin. First, a few advanced countries do receive large numbers of refugees in some years. Second, even those advanced countries that do not receive many refugees often attract large numbers of economic migrants and, over a span of several years, the macroeconomic and labor market effects of refugees become similar to those of other migrants, and act in combination with those of other migrants in complex ways. For example, Chart 1 shows that, in Sweden, the share of employed among male refugees increases sharply with the time of stay and is 15 percentage points lower than that of work migrants and of natives even after 12 years.

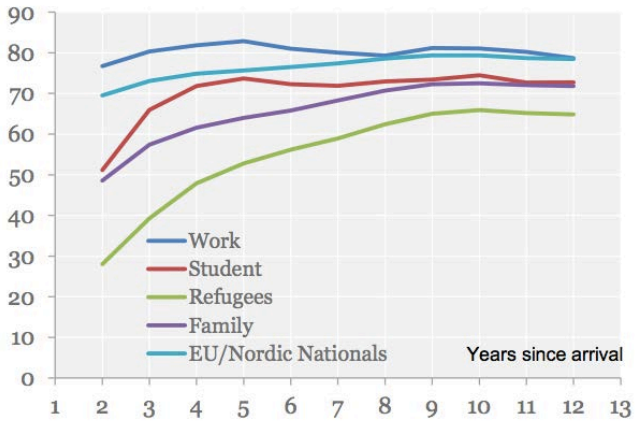
Table 2: Total number (stock measure) of refugees hosted as a share of native population

Country	Refugee (2016)	Percentage of population
Australia	69,497	0.3%
Austria	139,761	1.6%
Canada	97,311	0.3%
France	304,507	0.5%
Germany	669,408	0.8%
Greece	46,381	0.4%
Italy	147,302	0.2%
Japan	2,512	0.0%
Portugal	1,129	0.0%
Spain	12,943	0.0%
Sweden	230,103	2.3%
United Kingdom	118,913	0.2%
United States of America	272,898	0.1%
Jordan	685,178	7.2%
Lebanon	1,012,954	16.9%
Turkey	2,869,379	3.6%

Source: UNHCR (2017), Refugees, including refugee like situations

[8]Germany absorbed nearly 12 million ethnic German and other refugees in the wake of World War 2; West Germany saw a very large inflow of refugees after the fall of the Berlin Wall in addition to the inflow of around 2 million workers from East Germany. Israel saw the inflow of nearly 1 million Soviet Jews in the wake of the fall of the Wall, accounting for nearly 4% of the population in 1990 and over 3% in 1991. The city of Miami saw an inflow of Cuban refugees amounting to about 7% of its population over a six-month period in 1980 (see discussion below). Immigration rates (including all immigrants) have been much higher during some periods than they are today. For example, immigration to Argentina added 29% to the population in 1901–1910. During that decade, Canada received immigrants adding 17% to its population, and the United States 10% (Hatton and Williamson 1998).

Chart 1: Percentage of employed, by duration of residence in Sweden, men, cohort arriving 1997–1999



Source: Swedish Public Employment Service (Arbetsformedlingen)

The macroeconomic impact and labor market impact of refugees will only be significant where the flow of refugee is large enough – which, in advanced countries, is the case of Sweden and Germany in recent years or of Israel in the early 1990s (arrival of Soviet Jews). In the first instance, the spending dedicated to absorbing a large flow of refugees can be a source of economic stimulus to demand. For example, recent OECD and IMF reports estimate that the demand increase related to the refugee inflow in Europe was about 0.1% of GDP in 2016 (OECD 2015; Aiyar et al. 2016).

But the most important effect of immigration on economic growth is not through demand in the short-term. Instead, it is through supply and efficiency in the long-term. As refugees find jobs, they have effects like those of economic migrants, which is to stimulate increased capital formation. Investment is needed to equip the new workers with machines, as well as to house them. In the long-run, refugees are likely to induce expansion of sectors such as construction and utilities (electricity, water, etc.), which are among the most capital intensive (See, for example, UK Office for National Statistics, 2013 and 2016). The increased capital formation can be financed from domestic savings or from capital flows from abroad, as in the United States in the second half of the 19th century (Hatton & Williamson 1998) and Israel in the 1990s (Cohen & Hsieh 2001).

In today's Germany and Sweden, which are near full employment, refugees increase the supply of needed labor. As both countries run large structural current account surpluses, the increase in domestic capital formation triggered by the arrival of refugees is most likely to be financed by domestic savings, implying reduced current account surpluses or, equivalently, reduced capital outflow.

How big is the long-term boost to investment and economic growth likely to be? To give a sense of the magnitudes involved, if the new refugee flow adds 1% to the labor force and –

assuming (as suggested by empirical studies) that in the long run, the capital/labor ratio is constant[9] and that investment reacts fairly quickly[10] – that prompts a proportional 1% addition to the capital stock over, say, 5 years. Assuming no change in average productivity, by the end of the 5 years, national output is 1% higher, reflecting the equiproportionate increase in capital and labor, implying an acceleration of the average annual growth rate of 0.2% a year until the adjustment is completed at the end of 5 years. Assuming an incremental capital output ratio of 4 – near the average for advanced countries[11] – the arrival of refugees would imply an increase net domestic investment equal to 0.8% a year for 5 years until the adjustment is completed. Of course, if the flow of refugees is sustained at 1% a year of the labor force over a period of years, further output growth is possible and new additions to the capital stock are required each year. For example, a 1% increase in the labor force each year over 3 years, requires increased net investment amounting to 2.4% of the initial level by the end of year 3 and implies that, by then, the growth rate of output is higher by 0.6% a year, and so on. The message is that the cumulative effect of refugee arrival on economic growth is potentially significant, and even more so in slow-growing mature economies.

The arrival and on-streaming of large numbers of inexpensive laborers is politically controversial, but its potential positive effect on long-term economic growth is well established in development thinking. The insight that the inflow of abundant labor can raise the rate of return to capital and – under certain conditions – generate a virtuous circle of growth is most closely associated with the Nobel Prize-winner W. Arthur Lewis. Although the Lewis model is usually thought to apply to the movement of workers from the countryside to the cities and factories in poor countries, its relevance is more general. The famed Harvard economic historian Charles Kindleberger, writing in the late 1960's argued that the Lewis model helps explain much of Europe's post-war economic miracle in the 1950's and early 1960's and, also (as he accurately predicted) the subsequent slowdown. He wrote: "…the most important factor shaping the remarkable economic growth since 1950 has been the availability of a large supply of labor. The labor has come from a high rate of natural increase (the Netherlands), from transfers from agriculture to services and industry (Germany, France, Italy), from the immigration of refugees (Germany), and from the immigration of unemployed or underemployed workers from the Mediterranean countries (France, Germany and Switzerland)". (Kindleberger 1967). Kindleberger underlined the fact that while the increased supply of labor can help foster economic growth, it is not per se sufficient. In post-war Europe, the needs of reconstruction and pent-up consumer demand during the war years provided the sufficient conditions.

Today's post-financial crisis advanced countries vary greatly in terms of their underlying dynamism and need/ability to absorb new workers. According to its official projections,

[9] The assumptions that the capital-output ratio is fairly constant, and that the capital stock and the labor-force to grow tend to grow at similar rates over very long periods are long- established empirical regularities (Harrod 1939).

[10] Recent research in advanced countries suggests that domestic investment is quite quickly stimulated by a migration surge, so that within a few years the capital-labor ratio tends to return to its prior level in the face of a labor market shock. This conclusion is supported by studies such as Ottaviano and Peri (2008) for the US, Brücker and Jahn (2011) for Germany, Cohen and Hsieh (2000), and Ortega and Peri (2009) in a study of 14 OECD countries.

[11] UK Office of National Statistics 2013

Germany, for example, will see its population of working age decline by about 30% by 2060 in a low immigration scenario (Statistiche Bundesamt[12];OECD, 2017). It is perhaps not surprising that, given its low unemployment, competitiveness, balanced budget, and large current account surplus Germany has been more open to the prospect of receiving refugees than others, while struggling Italy has not, despite exhibiting even more unfavorable demographic trends than Germany.

It should be noted that, while the inflow of refugees can promote faster GDP growth, that will not be necessarily reflected in the higher growth of GDP per capita, which many would consider to be the more relevant measure of welfare. However, the expansion of the capital stock implied by the arrival of new workers may not be the only way that immigration boosts economic growth. Micro-level studies suggest that migrants may also induce accelerated productivity growth by providing a disproportionate share of entrepreneurs and innovators, by taking on jobs or moving to localities where native workers are reluctant to go, and by providing a source of labor services that respond more readily to the business cycle (Orhan & Senyücel 2015). None of these benefits – except for the initial demand-expanding stimulus to demand – are likely to accrue if the refugee is forced or encouraged to return early in the cycle of his or her economic integration. In fact, voluntary return programs in these circumstances may not only be directly costly, but also deprive the economy of the benefits of integrating the refugee.

The effect on wages of unskilled workers, employment, and unemployment is likely to be mild

The 1951 Convention relating to the Status of Refugees requires states to accord refugees "the most favorable treatment" accorded to any non-nationals of a foreign country in the same circumstances, with regard to the right to engage in wage-earning employment. Refugees must also be allowed to start businesses and practice liberal professions equally with other non-nationals. However, a recent study by the World Bank's KNOMAD initiative of practices in 20 countries (including Germany, Italy, the United Kingdom and the United States) hosting 70% of the world's refugees found "remarkable diversity in legal provisions and constraints on refugees' right to work. A restrictive approach to the right to work prevails, and most states are reluctant to ease these restrictions. Most refugees work in the informal sector, but under much less satisfactory and more exploitative conditions compared with nationals" (Zetter & Ruaudel 2016). Assessing the effect of refugees on labor markets in the host country must recognize this reality.

The clear majority of studies on the impact of migration on host country labor markets relate to economic migrants, and refugees differ in a number of important respects from economic migrants. Refugee flows tend to be more concentrated than those of economic migrants in time and space and are less linked to labor market opportunities. In advanced countries, economic

[12] https://service.destatis.de/bevoelkerungspyramide/index.html#!y=2019&o=2017v1&l=en

immigration may be more high-skilled than refugees, and, as already indicated, tends to be more circular. However, as refugees find jobs and become integrated into the labor market of host countries, their economic effects tend to become like those of economic migrants.

Many refugees are unskilled[13] and the fear that large inflows of unskilled migrants from the South will take jobs away from unskilled natives in the North is widespread. The literature on migration deals with this issue extensively, and it examines episodes of large inflows of economic migrants as well as of refugees. As discussed in the previous section, the inflow of migrants tends to expand final demand and to stimulate investment, raising the demand for all workers through those channels. Skilled natives, who are complementary to the unskilled immigrants, will tend to end up better off in the new steady state because of increased investment and because they have more unskilled workers to work with. However, the effect on unskilled natives is a priori indeterminate, since, while they, too, benefit from increased investment, they will confront increased competition from the unskilled migrants. Which of these effects dominates will depend critically on the extent to which the unskilled migrants are close substitutes for domestic unskilled workers, a question that has been extensively studied. Most – though not all – studies of the effect of unskilled migration on the wages of unskilled workers find only small negative effects, essentially because migrants boost investment but are far from close substitutes to native unskilled workers. Immigrants who do not speak the language, often cannot read and write in Latin script, have scant social networks, and relatively low expectations, tend to get and do different jobs than unskilled natives, so compete with them only indirectly. Many of today's refugees, hailing from Syria, Afghanistan, and parts of Sub-Saharan Africa conform to this description.

At the same time, unskilled migrants can reduce the price of many market services and reduce the cost of many public services (e.g. unskilled migrants help clean streets). An important benefit that natives – whether they are skilled or unskilled – derive from unskilled migrants, and one that until recently was largely neglected, is that they help reduce the prices of non-traded goods and services that natives use intensively, such as home care, food preparation, gardening, and construction. Cortes (2008) finds that the surge in immigration in the United States during 1980–2000 may have reduced the prices of these services by about 10 percent. By contrast, the arrival of refugees can put upward pressure on housing in localities where they are concentrated. This can make low-income housing less affordable even as it represents a net wealth gain for the native population that owns housing.

The arrival of low-skilled refugees is likely to have the greatest negative impact on the wages and employment opportunities of previous cohorts of low-skilled immigrants with whom they may be most directly competitive (World Bank, 2006).

---

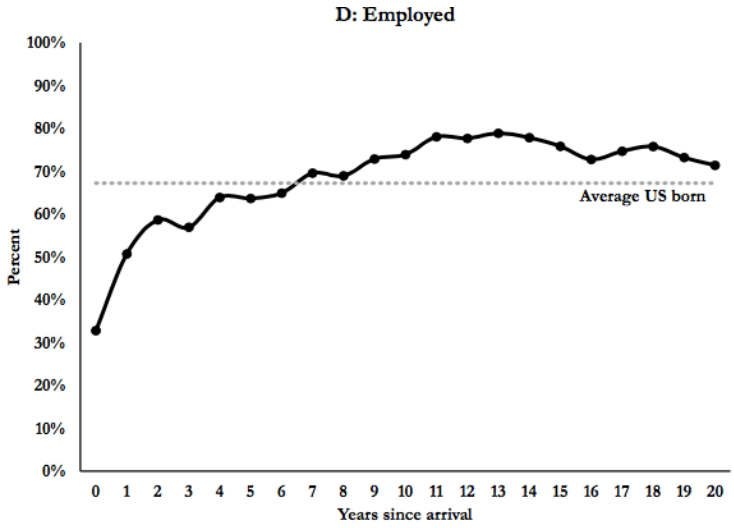
[13] Germany's Federal Service for Migration and Refugees (BAMF) released a study "Asylum applicants: social structure, qualifications and employability" in 2015. According to the study, 18% asylum seekers in Germany has a university degree, while 20 percent have attended a high school, approximately one-third a secondary school and 22 percent a primary school. Seven percent of migrants have no formal education at all. https://www.rt.com/news/343753-germany-refugees-males-statistics/

The fiscal impact of refugee flows is small

The overall fiscal impact of refugee flows is likely to be small. It is negative at first as they are costly to house and support when they first arrive, and it takes time for them to learn the language and find work, when they are allowed to work. Since most refugees are young, studies suggest that their fiscal impact becomes positive on a cash-flow basis in less than a decade and positive on a present value basis a few years later. Like economic migrants, refugees that are more skilled tend to have a more favorable fiscal profile than the less skilled.[14] However, at least one study reviewed below suggests that less-skilled refugees once settled and started working, have a more favorable fiscal profile than low-skilled natives because they draw less on social benefit programs (see Chart 2).

Evans and Fitzgerald (2017) estimate that the fiscal cost of resettling a refugee in the United States initially is approximately $10,000 (2007). To this cost are added those of various social safety nets, which average about $6,000 a year over the first 8 years and decline gradually thereafter. The refugee typically finds work after a brief period and contributes minimally to the tax take (sales, real estate, social security, Medicare and income taxes) from the first year, with the tax take exceeding $6,000 each year, by year 8 after arrival. After year 8, the refugee is budget-positive on a cash-flow basis and has 'paid-back' by year 13 or so. Using a discount rate of 2%, the authors estimate that those who enter the country between ages 18–45 pay on

Chart 2: Outcomes of refugees that entered the U.S. at ages 18–45 as a function of years in the U.S., compared to U.S. born adults, 18–65



Source: Evans and Fitzgerald (2017)

[14] United States Academy of Sciences Report on Immigration, 2017

average $21,000 more in taxes than they receive in benefits over a 20-year period. Of course, this calculus will be less favorable in countries where refugees are not allowed to work or cannot find work for a long time after they arrive. Where safety nets are more generous than they are in the United States (which has weaker safety nets than some European countries), the initial costs of hosting refugees will be higher, but some of that cost may be recovered through a higher tax take when the refugee finds work.

Expectations that development policy can stimulate return should be tempered

Can development aid create the conditions for refugees to return successfully and to want to return? The expectation that humanitarian assistance or development tools (capacity building, grants, loans, and policy advice) can play a significant role in promoting the return to countries in conflict is unrealistic. First, the scope of development agencies amid conflict is evidently limited. Second, in the best of circumstances, the development that materially changes the probability of conflict is a long-term multi-decade proposition while the refugee problem is pressing today.

Thus, the purpose of development policy is not and should not be to encourage return. Indeed, it is quite possible that in poor countries advancing incomes will spur increased migration initially on account of the "migration hump[15]" (Clemens & Hunt 2017, Dadush et al., 2017). The migration hump is the tendency of migration frequency to be low at very low levels of income, to rise until incomes reach a middle-income status, and to decline after that.

However, there are grounds for hoping that a development assistance effort – comprised of aid, private and public investment and the fostering of a business-friendly economic environment – which succeeds in stimulating sustained economic growth can reduce the likelihood of civil conflict in the long-distance future. Refugee flows are triggered by conflicts, especially civil conflicts. According to a study by Collier and Hoeffler (1998), of conflicts that occurred between 1960 and 1992, conflicts were accompanied by a sharp decline in GDP per capita, –2.2% a year versus a counterfactual. The authors also find that the incidence of civil conflicts is inversely related to per capita incomes, after controlling for factors likely to induce conflict, such as ethnic fractionalization. It would be interesting to verify whether the correlation is as strong as it used to be, since the largest sources of refugees today are from Syria and Iraq, which are middle-income countries. Still, as evident from the data presented above, today there are almost no asylum seekers that hail from high-income countries, while there are many that originate in the low-income countries.

It must also be borne in mind that countries of origin that are unsafe today could become safe in the long-term future, as conflicts are resolved, and the dust finally settles. Development policy can then help those accelerate reconstruction, reduce the likelihood of a recurrence of humanitarian crises, and help the refugees that do return integrate successfully. While it is

[15] There is considerable empirical support for the notion that migration intensity is low at low levels of income per capita, rises as per capita income (PPP adjusted) rises towards $ 10000 a year, and declines thereafter. Most countries that are a large source of refugees exhibit per capita incomes below this threshold.

unlikely that large numbers of refugees will return to poor countries from rich countries, the few that do return can play a role in the reconstruction and development effort, especially if returnees bring back financial assets and skills. There is considerable evidence that returnees (and the refugees that do not return) are likely to cement commercial links between the country of origin and the country that hosted them. (Dadush 2015)

Conclusion

This brief has argued that the costs of hosting refugees are front-loaded while the economic and fiscal benefits that accrue from their eventual integration in the host economy are back-loaded and potentially significant. The economic benefits associated with refugees will not materialize unconditionally, however. The single most important step that countries can take to maximize those benefits is to accelerate the vetting process and allow asylum seekers and refugees to work as quickly as possible. In addition, modest investments in, most importantly, language training, can pay high dividends. Counseling and revising overly restrictive credentials regulations are also important.

There is no "one size fits all" return policy, just as there is no single optimal immigration policy. However, policies regarding the return of refugees must be framed with in mind broader policy towards immigration. If, as is the case in most advanced countries today, aging and declining native populations imply that the demand for migrants is bound to increase, it makes little sense to incur the high fiscal, political and humanitarian costs associated with returning refugees only to find that more economic immigrants, many of whom will arrive illegally, will be attracted.

Return that is truly voluntary (as distinct from "soft deportation") can only be expected in specific instances or where personal considerations prevail. Migrants that have been given the opportunity to build skills and savings and that retain strong family and emotional connections with their country of origin are the most likely to return voluntarily. Most, though not all, countries that are the source of large numbers of asylum seekers are patently unsafe and incapable of affording the returning migrant a livelihood. Financial incentives are unlikely to play a significant role in spurring return, except in specific instances where personal considerations prevail. Even then, the costly investment in voluntary return may only result in foregone opportunities from completing the process of integrating the refugee.

The expectation that humanitarian assistance or development tools (grants, loans, policy advice) can play a significant role in promoting the return to countries in conflict is unrealistic. The purpose of development policy is not and should not be to encourage return. Once conflict abates, development agencies can play a role in consolidating peace and avoiding a recurrence of humanitarian crises that create new waves of refugees.

References

Aiyar, S., Barkbu, B., Batini, N., Berger, H., Detragiache, E., Dizioli, A., Ebeke C.H.; Lin, H.H., Kaltani, L., Sosa, S., Spilimbergo, A., & Topalova, P. (2016). The refugee surge in Europe. Europe IMF Staff Discussion Note (SDN/16/02). https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/The-Refugee-Surge-in-Europe-Economic-Challenges-43609

Brücker, H., & Jahn, E. J. (2011). Migration and wage-setting: reassessing the labor market effects of migration. *The Scandinavian Journal of Economics*, *113*(2), 286–317. http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9442.2010.01634.x/abstract

Civillini, M., & Bagnoli, L. (2017, May 5). Skyrocketing costs for returning EU migrants. Retrieved December 04, 2017, from https://euobserver.com/migration/137720

Clemens, M. A., & Hunt, J. (2017). *The labor market effects of refugee waves: reconciling conflicting results*. NBER Working Paper No. 23433. National Bureau of Economic Research. http://www.nber.org/papers/w23433

Cohen, S. and Hsieh, C. (2000). Macroeconomic and labor impact of Russian immigration to Israel. Working Paper. October. https://pdfs.semanticscholar.org/21cd/178f8a8994bdb41efc064362ce7ec1f0ccf5.pdf

Cohen, S., & Hsieh, C. T. (2001). *Macroeconomic and labor market impact of Russian immigration in Israel*. Working Papers 2001-11, Bar-Ilan University, Department of Economics. https://ideas.repec.org/p/biu/wpaper/2001-11.html

Collier, P., & Hoeffler, A. (1998). On economic causes of civil war. *Oxford economic papers*, *50*(4), 563–573. https://www.researchgate.net/publication/5215549_On_Economic_Causes_of_Civil_Wars

Cortes, P. (2008). The effect of low-skilled immigration on US prices: evidence from CPI data. *Journal of political Economy*, *116*(3), 381–422. http://www.jstor.org/stable/10.1086/589756

Crisp, J. & Long, K. (2016). Safe and voluntary refugee repatriation: from principle to practice. *Journal on Migration & Human. Security* 4: 141. http://jmhs.cmsny.org/index.php/jmhs/article/view/65

Dadush, U. (2014). The effect of low-skilled labor migration on the host economy. *World Bank KNOMAD Working Paper Series*, (1). http://carnegieendowment.org/2014/04/30/effect-of-low-skilled-labor-migration-on-host-economy-pub-55599

Dadush, U. (2015). Diaspora, development and Morocco. Policy Paper PP15/18, OCP Policy Center. http://www.ocppc.ma/publications/diaspora-development-and-morocco#.Wo5_THkiFtQ

Dadush, U., & Niebuhr, M. (2016). The economic impact of forced migration. Research papers & Policy papers 1605. OCP Policy Center. http://www.ocppc.ma/sites/default/files/OCPPC-PP1605rec.pdf

Dadush, Uri (2017). The economic effects of refugee return and policy implications. OCP Policy Center. http://www.ocppc.ma/publications/economic-effects-refugee-return-and-policy-implications#.Wo5_u3kiFtR

Dadush, U., Demertzis, M., & Wolff, G.B. (2017). Europe's role in North Africa: development, investment and migration. Bruegel Policy Contribution Issue n° 10| 2017. http://bruegel.org/2017/04/europes-role-in-north-africa-development-investment-and-migration/

Dominguez-Mujica, J., Guerrra-Talavero, R. & Pareno-Castellano, J. (2012). Migration at a time of global economic crisis: the situation in Spain. *International Migration* 52(6): 113–127. https://onlinelibrary.wiley.com/doi/pdf/10.1111/imig.12023

Evans, W. N., & Fitzgerald, D. (2017). The economic and social outcomes of refugees in the United States: evidence from the ACS. NBER Working Paper No. 23498. National Bureau of Economic Research. http://www.nber.org/papers/w23498

EU (2017). On a more effective return policy in the European Union – a renewed Action Plan, March. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0200

ESI (2017). The Refugee Crisis Through Statistics. European Stability Initiative, 30 Jan. 2. Web. http://www.esiweb.org/pdf/ESI%20-%20The%20refugee%20crisis%20through%20statistics%20-%2030%20Jan%202017.pdf

Gerver, M. (2017). Paying refuges to leave. *Political Studies 65*(3). https://doi.org/10.1177/0032321716677607

Gibney, M.J. (2008). Asylum and the Expansion of Deportation in the United Kingdom. *Government and Opposition*, *43*(2), 146–167. https://doi.org/10.1111/j.1477-7053.2007.00249.x

Harild, N., Christensen, A., & Zetter, R. (2015). Sustainable refugee return. Working Paper. https://openknowledge.worldbank.org/handle/10986/22751

Hatton, T.J., & Williamson, J. G. (1998). *The age of mass migration: Causes and economic impact*. Oxford University Press on Demand.

Harrod, R.F. (1939). An essay in dynamic theory. *The Economic Journal*, *49*(193), 14–33. http://piketty.pse.ens.fr/files/Harrod1939.pdf

IISS (International Institute for Strategic Studies) (2017). Armed conflict survey 2017. https://www.iiss.org/en/publications/acs/by%20year/armed-conflict-survey-2017-8efc

Kindleberger, C.P. (1967). *Europe's postwar growth: The role of labor supply*. Harvard University Press.

Kuschminder, K. (2017). Taking stock of assisted voluntary return from Europe: decision making, reintegration and sustainable return – time for a paradigm shift. RSCAS Working Papers, EUI RSCAS 2017/31. http://cadmus.eui.eu/handle/1814/47064

Leerkes, A., Os, R., & Boersema, E. (2017). What drives 'soft deportation'? Understanding the rise in Assisted Voluntary Return among rejected asylum seekers in the Netherlands. *Population, Space and Place*, *23*(8), e2059.

Lucas, R.E. (2005). *International migration and economic development: Lessons from low-income countries*. Edward Elgar Publishing.

OECD (2015). How will the refugee surge affect the European economy? (2015). Migration Policy Debates No. 8, November. https://www.oecd.org/migration/How-will-the-refugee-surge-affect-the-European-economy.pdf

OECD (2017) Finding their way: labor market integration of refugees in Germany https://www.researchgate.net/publication/315789320_Finding_their_way_-_The_labour_market_integration_of_Refugees_in_Germany

Ortega, F., & Peri, G. (2009). The causes and effects of international migrations: Evidence from OECD countries 1980–2005. NBER Working Paper No. 14833. National Bureau of Economic Research. http://www.nber.org/papers/w14833

Orhan, O., & Senyücel Gündoğar, S. (2015). Effects of the Syrian refugees on Turkey. ORSAM Report, 195. https://www.alnap.org/help-library/effects-of-the-syrian-refugees-on-turkey

Ottaviano, G. I., & Peri, G. (2008). Immigration and national wages: clarifying the theory and the empirics. NBER Working Paper No. 14188. National Bureau of Economic Research. http://www.nber.org/papers/w14188

Pasha, H.A., & Altaf, M.A. (1987). Return migration in a life-cycle setting: An exploratory study of Pakistani migrants in Saudi Arabia. Pakistan Journal of Applied Economics, 6(1), 1–23. http://aerc.edu.pk/wp-content/uploads/2017/03/1st-paper-Page-1-23-1.pdf

Pritchett, L. (2017). Labor mobility and wages of the rich country poor, part one: analysis and implications of the Mariel Boatlift, Center for Global Development, June. https://www.cgdev.org/blog/labor-mobility-and-wages-rich-country-poor-part-one-analysis-implications-mariel-boatlift

UNHCR (2017). UNCR Population Statistics – Data – Time Series. N.p., n.d. Web. 03 July 2017. http://popstats.unhcr.org/en/time_series

UK Office of National Staistics (2013). Capital stocks, consumption of fixed capital: 2013. Statistical Bulletin. https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/capitalstocksconsumptionoffixedcapital/2014-07-02

World Bank (2006). Global economic prospects 2006: economic implications of remittances and migration. Report No. 34320. http://documents.worldbank.org/curated/en/507301468142196936/Global-economic-prospects-2006-economic-implications-of-remittances-and-migration

Zetter, R., & Ruaudel, H. (2016). Refugees' right to work and access to labor markets–An assessment. Working Paper, September 19. https://www.rsc.ox.ac.uk/publications/refugees-right-to-work-and-access-to-labor-markets-an-assessment-part-1