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POLICY BRIEF

PAYING THE PRICE: THE COST OF EUROPE'S REFUGEE CRISIS

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SUMMARY

- EU member states' reaction to the refugee crisis has been uncoordinated and ad hoc. As a result, some countries risk being overwhelmed by the refugee inflow and its costs, while others contribute little relative to their means.
- As a whole, the EU could easily afford to take in, shelter, feed and integrate into its labour market many more refugees than it has so far.
- For Europe to help as many refugees as possible, it is essential for the inflow to be sustainable, in the sense that it is managed in a manner that could be sustained for an extended period.
- This paper makes the case for a European Refugee Union under which funding, organisation and regulation of refugee flows would be centralised at the European level. This would help each refugee in a more economically efficient way, so that more could be offered protection
- Under this plan, member states would agree to finance all refugee costs through a dedicated tax, pay member states and other countries to host refugees, beef up common border controls, and create reception centres close to crisis countries, relocating those with successful asylum claims into Europe.

The massive influx of refugees to Europe is the most serious crisis that the European Union has faced since its foundation. Even if the recent EU–Turkey agreement succeeds in permanently closing the Balkan route, through which hundreds of thousands of refugees and migrants have made their way into the EU over the past year, the crisis will be far from over. With the war in Syria continuing and no sign of stabilisation in North African countries such as Libya or Egypt, there will be further flows of displaced people looking for safety, and closing down one path into Europe will merely divert them to other routes.

Already, migrant flows have stretched the ties between EU member states, and even within some states, to their limits. A rift has emerged between a core of the older member states – particularly Germany – on the one hand, and the more recent members in Central and Eastern Europe on the other, with accusations from both that the other camp has violated EU norms. In many European countries, the refugee inflow has strengthened right-wing, xenophobic, and anti-EU parties. In Germany's March 2016 elections, the anti-immigration party Alternative for Germany (AfD) entered all three regional parliaments that held a vote. In countries such as Poland and France, the mere prospect of larger refugee inflows has fuelled a growth in support for far-right parties.

A central fear of European voters is that refugee inflows could overwhelm their countries economically. In national debates, the recurrent concern is that refugee inflows will increase unemployment, strain infrastructure, and burden already fragile public budgets beyond the point of

sustainability, pushing countries back into the debt crisis they have only just escaped.

Against this background of turmoil, this paper will assess the economic sustainability of refugee flows into the EU, and propose ways to make them more sustainable. Its core proposal is the establishment of a "European Refugee Union" that centralises key policies on refugees and asylum, as well as their financing, at the European level. While moving towards such a comprehensive solution any time soon is of course a utopia, this paper offers an ideal model that can be used as a reference point for debate over more immediate measures.

The focus on the economic aspects of the crisis is not meant to neglect its humanitarian urgency, but is rather an attempt to maximise the number of people in need that the EU can help. Economic sustainability – managing the inflow in a way that can be sustained for an extended period – is a fundamental aspect of any durable solution to the humanitarian crisis. As there is a limit to the number of refugees that can sustainably be taken in by EU member states, helping each refugee in a more economically efficient way means that more can be offered protection. The basic notion is that Europe can only help others if it is not itself overwhelmed and pushed to the brink of economic or government crisis.

The economic sustainability of refugee flows

There are two important dimensions to the sustainability of refugee inflows: fiscal and political. On the fiscal side, receiving, processing, housing, feeding, and finally integrating refugees into the labour market comes with significant upfront costs, worsening the country's fiscal position, even though fiscal benefits might come later, once migrants have been integrated into the labour market.[1] On the political economy side, the danger is that a large share of the population feels itself to be economically disadvantaged by refugee inflows, and turns to extremist forces that change the country's stance on hosting refugees (either by putting xenophobic forces into government or by pressuring mainstream parties to change their position).

Fiscal sustainability

While it is sometimes argued that migrants are beneficial *per se* to an ageing society, in fact migrants only help economically to mitigate the demographic challenge if they are integrated into the labour market and become net payers into the fiscal system. An 18-year-old refugee who remains unemployed, relying on transfers or welfare payments, for the rest of his or her life does not make the ageing of a society more bearable, but burdens social systems with additional costs at a time when they are already under stress.

Thus, for the question of fiscal sustainability, integration into the labour market is crucial. This does not mean that the fastest way of putting migrants to work is always the most sustainable. Placing a Syrian physician in a construction job might allow him or her to start work immediately, but might also mean that that person's human capital remains underutilised in the long term, limiting his or her ability to pay taxes and make social-security contributions. Instead, it is crucial to tailor training and integration programmes, which will cost extra money in the beginning.

Even if migrants have the potential to deliver net fiscal benefits over their lifetime, it is difficult for some countries to make the necessary upfront investments. At present (especially after the global financial crisis and the euro crisis), a number of countries in the eurozone cannot take their debt sustainability for granted. This is particularly the case for Greece,[2] where debt relief is being discussed as part of loan packages from its European partners and from the International Monetary Fund (IMF). Spain, Portugal, Italy, and Belgium also have debt-to-GDP ratios above 100 percent.

For these countries, taking in refugees poses a substantial fiscal challenge. The IMF estimates the costs of refugee inflows to the EU at an average of 0.1–0.2 percent of GDP,[3] but this is probably too low. First, it does not include all refugees that arrived in 2015, and makes no provision for more arriving in 2016. Second, the number is calculated on the basis of costs already incurred, which in many countries do not yet include training and integration programmes. Back-of-the-envelope calculations presented later in this paper suggest that the cost of the refugee crisis for Europe (including external activities in neighbouring countries) will be as high as 0.5 percent of GDP, given a total inflow of 3.5 million refugees.

Political-economic sustainability

The question of political-economic sustainability is closely linked to the state of the labour market. While the economic analysis generally comes to the conclusion that, over the medium term, migrant inflows neither increase unemployment nor depress the wages of the existing population (and might actually boost wages),[4] this is not necessarily true in the short term. Migrant workers compete for jobs, especially with low-skilled workers, and there is some evidence that a large inflow of migrants depresses lower-end wages.[5] The impact will be felt more strongly if unemployment is already high.

1 Shekhar Aiyar, Bergljot Barkbu, Nicoletta Batini et al., "The Refugee Surge in Europe: Economic Challenges", IMF Staff Discussion Note 16/02, January 2016, available at https://www.imf.org/external/pubs/ft/sdn/2016/sdn1602.pdf (hereafter, IMF Staff Discussion Note, 2016).

2 "Greece: An Update of IMF Staff's Preliminary Public Debt Sustainability Analysis", IMF Country Report No. 15/186, 14 July 2015, available at https://www.imf.org/external/pubs/ft/scr/2015/cr15186.pdf.

3 IMF Staff Discussion Note, 2016.

4 For a literature survey, see Sari P. Kerr and William Kerr, "Economic Impacts of Immigration: A Survey", Finnish Economic Papers, 24 (1): 1–32, 2011; or Simonetta Longhi, Peter Nijkamp, and Jacques Poot, "A Meta-Analytic Assessment of the Effects of Immigration on Wages", Journal of Economic Surveys, 19: 451–77, 2005.

5 See, for example, George J. Borjas, "The Economic Benefits from Immigration", Journal of Economic Perspectives, 9 (2): 3–22, 1995; or, for deeper analysis, Abdurrahman Aydemir and George J. Borjas, "A Comparative Analysis of the Labor Market Impact of International Migration: Canada, Mexico, and the United States", Journal of the European Economic Association, 5: 663–708, 2007; Abdurrahman Aydemir and George J. Borjas, "Attenuation Bias in Measuring the Wage Impact of Immigration", Journal of Labor Economics, 29 (1): 69–112, 2011.

Data

Based on these arguments, we have gathered data on the fiscal outlook, labour market, and poverty levels for each member state for 2015, along with the number of asylum applications in that year, in order to assess the economic and political sustainability of the recent surge of refugee flows into the EU. This gives a snapshot of each country's capacity to take in refugees prior to the surge of late 2015, as the burden of those arrivals is in general not yet reflected in the data. For example, refugees who arrived in that year – particularly in the autumn or winter – would not yet be counted in unemployment figures, and would not have received much financial support, particularly in terms of longer-term and more expensive training or integration programmes.

Each element is graded on a traffic-light system – red does not necessarily mean that a country cannot take in more refugees, but that it is more likely to experience problems with additional arrivals than those coloured yellow or green. The colouring should be understood in relative rather than absolute terms.

According to the data, 16 member states are yellow or green over all dimensions, suggesting that these countries would not face serious economic problems hosting and integrating a significant number of additional refugees. The other 12 are red in at least one dimension, indicating that large refugee inflows could lead to problems. In particular, countries hard hit by the euro crisis, such as Spain or Greece, have limited economic capacity to finance a large additional refugee population.

Interestingly, no dimension lights up as red across Europe. This indicates that the EU as a whole is capable of taking in more refugees than the sum of its member states. While some countries face fiscal constraints in supporting refugees, they might have labour market conditions that allow for the relatively easy integration of refugees. If the fiscal burden of the refugee inflow could be separated from the actual hosting, it would be cheaper and easier overall to integrate refugees, as each country could contribute in its area of strength.

The following indicators and criteria were used:

Fiscal outlook: The table gives the projected debt level for each country in 2021 if its economy grows 3.5 percent in nominal terms annually (2 percent inflation and 1.5 percent real GDP growth), assuming that costs for refugee inflows of 0.5 percent of GDP[6] are financed by additional borrowing.

Countries in which the debt-to-GDP level is projected to be above 100 percent in 2021 (levels associated with market mistrust) are red, countries with a projected debt-to-GDP level of between 60 and 100 percent (above the Maastricht threshold, but usually not seen as critical by financial markets) are yellow, and countries with a projected debt-to-GDP level of under 60 percent (below the Maastricht threshold) are green.

Labour market:

- Current level of unemployment: The table gives the current level of unemployment in member states, on the grounds that refugees will be more easily integrated if unemployment is low. Given an average EU unemployment rate of around 10 percent, national rates below 7.5 percent are green (significantly better than the EU average), rates between 7.5 percent and 12.5 percent are yellow, and rates above 12.5 percent are red (significantly worse than the average).

- Change in unemployment rate: The table gives the change in the unemployment rate from prior to the 2008–2009 financial crisis until today. When the situation of the native population has deteriorated markedly, growing competition for jobs from migrants is more likely to cause conflicts. Countries that have seen a decline or marginal increase (up to one percentage point) in unemployment since 2007 are green, those where the unemployment rate has increased by up to 5 percentage points are yellow, and those where unemployment has increased by more than 5 percentage points are red.

Poverty: The table gives the share of the population at risk of poverty according to the standard EU definition. The rationale is that countries that struggle to prevent the native population from sliding into poverty have less capacity to aid newcomers. Moreover, when a large part of the existing population suffers from deprivation, it might be politically more difficult to divert resources to migrants.

Countries where less than 20 percent of the population are at risk of poverty are green, countries with 20 to 27.5 percent at risk are yellow, and countries with more than 27.5 percent at risk are red.

Asylum applications: The number of asylum applications registered in 2015 is used as a proxy for the number of refugees that each country is supporting. This probably understates the true figure, but it is difficult to say by how much. It includes those who may be deported once their applications are rejected, but neglects those who arrived before 2015 and those who have not yet filed claims. For example, in Germany, more than 1.1 million refugees have been registered in the electronic filing system upon arrival, but the total number of asylum applications in 2015 was only half that. Meanwhile, a large number of refugees currently in Greece have not applied for asylum, as they intend to move on.

6 As discussed below, a realistic estimate of the costs of dealing with a large refugee inflow, equally distributed to all EU28 member states, would amount to roughly 0.5 percent of GDP.

Table 1: Economic sustainability of refugee inflow by member state

Countries	Public debt to GDP in 2021, given current deficit plus 0.5% of GDP refugee costs	Unemployment rate 2015	Change in unemployment rate, 2007-2015, in percentage points	Population at risk of poverty or social exclusion, in %	First time asylum applicants per million inhabitants 2015
European Union	87	9.4	2.2	24.4	2,470
Austria	81	6	1.1	19.2	9,970
Belgium	104	8.3	0.8	21.2	3,463
Bulgaria	39	10.1	3.2	40.1	2,800
Croatia	95	16.2	6.3	29.3	34
Cyprus	96	15.5	11.6	27.4	2,486
Czech Republic	45	5.1	-0.2	14.8	117
Denmark	46	6	2.2	17.9	3,679
Estonia	9	6.3	1.7	26.0	172
Finland	71	9.5	2.6	17.3	5,876
France	100	10.5	2.5	18.5	1,063
Germany	58	4.8	-3.7	20.6	5,441
Greece	189	25.1	16.7	36.0	1,047
Hungary	75	6.7	-0.7	31.1	17,699
Ireland	92	9.4	4.7	27.4	707
Italy	125	11.9	5.8	28.3	1,369
Latvia	40	9.9	3.8	32.7	165
Lithuania	42	9	4.7	27.3	93
Luxembourg	19	6.1	1.9	19.0	4,194
Malta	63	5.4	-1.1	23.8	3,948
Netherlands	69	6.9	2.7	16.5	2,546
Poland	61	7.5	-2.1	24.7	270
Portugal	130	12.6	3.5	27.5	80
Romania	40	6.7	0.3	40.2	62
Slovakia	60	11.5	0.3	18.4	50
Slovenia	86	9.1	4.2	20.4	126
Spain	110	22.3	14.1	29.2	314
Sweden	44	7.4	1.3	16.9	16,016
UK	97	5.2	-0.1	24.1	591

Source: Eurostat, European Commission, author's calculations (for public debt in 2021)

The political economy of Europe's bickering

The differences in the economic sustainability of refugee inflows across member states helps to explain the variety of stances on the issue. The table above shows that some member states are genuinely in a situation where the sustainability of the recent large refugee inflows is questionable, and further inflows could cause problems. Meanwhile, some countries that have been generous when it comes to accepting refugees, such as Germany and Sweden, have a demonstrably large economic capacity to do this.

However, there are some countries that are in principle economically well-placed to host refugees, but have so far been reluctant to do so for domestic political reasons. The UK, the Czech Republic, Poland, Slovakia, and Lithuania stand out. On the other end of the spectrum, there are some countries that, according to the analysis above, have less economic leeway to take in refugees, but welcomed a disproportionate number in 2015. Greece, Cyprus, and Italy are obvious examples. This discrepancy between economic capacity and refugee intakes underlines fundamentally different approaches to dealing with refugees between countries, based on their historical experience with refugees, their cultural openness, and the political leaning of their government.

Every country is trying to deal with the current issues from a narrow, myopic national perspective, with significant negative short- and medium-term consequences for the EU as a whole. The risk is that this individualistic approach will not only fall short in humanitarian terms, but will be damaging in economic and political terms. Even the member states with the highest economic capacity to absorb refugee inflows would be overwhelmed if they had to take in and finance all the refugees coming to Europe. Germany, for example, would face great difficulty accepting 3.5 million refugees over the next few years, as this would likely create great tension between the newcomers and poorer sectors of the existing population. However, in principle, the EU as a whole would be well able to deal with this inflow.

At the core of the issue is a lack of coordination, and the number of national policies with negative consequences for other member states. For example, German Chancellor Angela Merkel's decision to suspend the Dublin rules – under which refugees must apply for asylum in the first European country they arrive in – allowing an estimated more than a million refugees into Germany, was not coordinated with other member states. There are claims by member states, and some anecdotal evidence, that the perception of Merkel's position as an unconditional open-door policy has contributed to an increase in the flow of refugees into the EU, with negative consequences for countries along the Balkan route as well as for frontline states such as Greece. However, this claim remains highly disputed. Many Syrian refugees in Greece interviewed by the UN refugee agency (UNHCR) in February 2016 reported journeys of many months to reach Europe, undermining the idea that the surge of arrivals in late 2015 was triggered by Merkel's comments.[7] The lack of reliable figures on the number of refugees currently in Germany makes it still more difficult to draw conclusions.

Providing sub-standard asylum procedures and legal protection to refugees – an accusation that has often been levelled at Greece[8] – can also have negative consequences for other member states. Under international and EU law, the authorities can only send refugees back to countries where they can expect protection, so failing to upgrade one country's national system obliges others to accept more refugees. In 2011, for example, the European Court of Justice ruled that refugees could not be sent back to Greece, despite the Dublin principles, due to the chaotic situation of the country's asylum system.[9]

Another example of national initiatives that have negative consequences for the rest of the EU are border closures and the construction of border fences. While the piecemeal approach of closing certain routes into Europe has sometimes been welcomed due to the lack of alternatives, and has provided relief to the countries engaging in it, as seen with the recent EU–Turkey deal, these closures do not solve the problem. First, closing one route has often led to the increased use of other ways into the EU. With the Balkan route closed, it is likely that the Mediterranean route will gain in importance again, that a new Black Sea route will be established, or even that more refugees will start to use the Arctic route through Russia.[10] Closing one route might help the countries on that route, but it shifts the burden to others.

Second, increasing border controls and making crossing into the EU more difficult might deter some refugees, but can also increase smugglers' profits and hence create a new pull factor. In general, the more help refugees need to cross borders, the higher the prices smugglers can charge and the higher their potential profits. While poor refugees might be deterred, more affluent ones, such as middle-class Syrians, will probably pay the higher price. Bigger profits for smugglers increase their incentive to induce people to make the trip, including through placing refugees under large debts and extorting money once they arrive at their destination. There is evidence that smugglers have invested in establishing smuggling routes from more distant countries (e.g. in sub-Saharan Africa) to keep their smuggling operations in the Mediterranean profitable.[11]

7 See UNHCR, "Profiling of Syrian Arrivals on Greek Islands in February 2016", Geneva, 2016, available at https://data.unhcr.org/mediterranean/download.php?id=874 (hereafter, UNHCR, "Profiling of Syrian Arrivals on Greek Islands").

8 See, for example, UNHCR observations on the current asylum system in Greece, December 2014, available at http://www.refworld.org/docid/54cb3af34.html.

9 See rulings C-411/10 N. S. vs Secretary of State for the Home Department and C-493/10 M. E. and others vs Refugee Applications Commissioner and Minister for Justice, Equality and Law Reform.

10 See, for example, Stefan Beutelsbacher, Nando Sommerfeldt, and Holger Zschäpitz, "Flüchtlinge könnten bald über die 'Kaukasus-Route' kommen", *Die Welt*, 18 March 2016, available at http://www.welt.de/wirtschaft/article153372386/Fluechtlinge-koennten-bald-ueber-die-Kaukasus-Route-kommen.html.

11 Tuesday Reitano and Peter Tinti, "Survive and advance: The economics of smuggling refugees and migrants into Europe", Institute for Security Studies, Paper 289, November 2015, available at http://reliefweb.int/report/world/survive-and-advance-economics-smuggling-refugees-and-migrants-europe (hereafter, Reitano and Tinti, "Survive and advance").

Just as the decades-long "war on drugs" has not eradicated the illegal import of drugs into the United States, an attempt to end the smuggling of refugees through use of military force and border controls is set to fail. This has important consequences for security and stability in neighbouring regions. The revenue of drug cartels has contributed to instability in Mexico, fuelling widespread corruption and violence, and the revenue of refugee smugglers could at some point further destabilise North Africa, some countries in the Middle East, and even Turkey. There are plausible estimates that smuggling organisations made profits of over $500 million in 2015 alone by bringing people to the EU.[12]

The economic case for a European Refugee Union

These narrow, nationalist approaches to the refugee crisis reflect the fact that, though the actions of each member state have negative effects on other states, there is little incentive for them to coordinate, leading to a worse outcome for all. Each member state is engaged too much in trying to protect its narrow interests, and too little in working towards a systematic solution. The solution to this problem – as set out by the theory of "fiscal federalism" – is to move the task to the EU level, so that the EU-wide impact of policies like closing borders are taken into account when devising policy.

Moving the responsibility for refugee crisis policy to the EU level could be achieved through a "European Refugee Union" that would centrally finance, organise, and regulate the processing of asylum requests, the hosting of refugees, and external policies related to refugee flows in neighbouring countries and regions. This European Refugee Union could be integrated into the European Commission, or placed under a newly created authority, especially if it were initially formed by a sub-group of member states. National and local authorities would be involved in organising refugee shelters and integration measures, but overall responsibility and decision-making power would be at the European level.

Both the foreign policy and domestic aspects of dealing with the refugee crisis should be under the Refugee Union, due to the close links between the two. If foreign policy measures fail to stabilise refugees' countries of origin and transit, there will be a direct impact on those responsible for dealing with refugees inside the EU. Handing the EU responsibility for one of these fields without giving it authority over the other would create new opportunities for burden-shifting and myopic solutions that only address part of the problem.

Five elements of a European Refugee Union

The following section will outline the five key elements of the Refugee Union. It will focus on economic burden-sharing, offering more specific proposals, leaving the legal and political details more open.

1. Create a single European asylum process.

From an economic point of view, it is important that the asylum process is as efficient as possible, offering refugees immediate protection, but that "shopping" is prevented – i.e. refugees selecting where to apply for asylum, or applying in more than one country – otherwise, an efficient allocation becomes impossible. To this end, European countries should set up a common, centralised asylum system.

All asylum seekers coming to the EU would apply for protection at the European level. Their claim, including their biometric data, would be registered at their first contact with EU border controls or law enforcement, stored in a central database, and processed centrally by the Refugee Union. The refugee would be allocated to a member state that would host them while they awaited the decision, and offer them asylum if the application were successful. The wishes of the refugee would be taken into account as far as possible in allocating them to a country. This would have legal implications for the current Common European Asylum System: the EURODAC fingerprint database regulation would have to be revised, and the Asylum Procedures Directive and Dublin Regulation would be replaced. However, the Reception Conditions Directive and the Qualification Directive – which set the standards of living for applicants, and the grounds on which asylum is granted, respectively – would stay in place.

The European Refugee Union would create asylum application centres in all locations where large numbers of refugees are arriving. The responsibility for accepting and processing asylum applications, including for popular destination countries such as Germany and Finland, would be given to European authorities, as would the task of running reception "hotspots". These are currently operated by national authorities (for example, in Greece and Italy), with support from Frontex and European Asylum Support Office (EASO) officials.

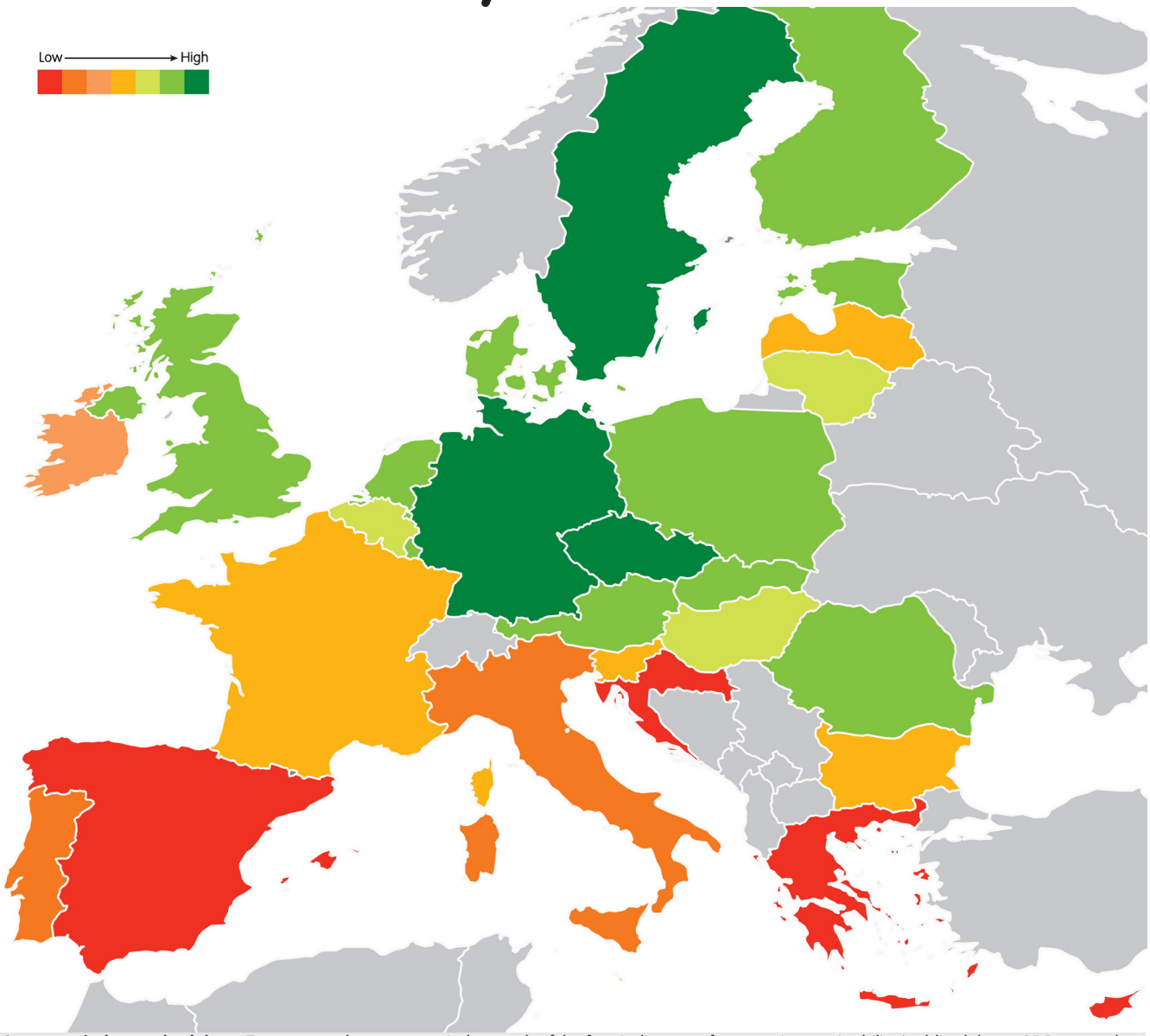
2. Install a burden-sharing system, separating financial contributions from the hosting of refugees.

To break the political deadlock over the distribution of refugees, a first step would be to separate the reception and hosting of refugees from the fiscal burden. As shown above, some member states would be able to contribute fiscally but are reluctant to host refugees. Conversely, some countries may be overwhelmed fiscally, but more open to actual hosting. For example, Portugal's prime minister recently voiced willingness to receive more refugees resettled from Greece and Italy, even though his country is in dire fiscal straits.[13] One option for encouraging countries in a tough fiscal position to accept refugees would be to cover the costs of their food and accommodation, as well as some overhead to invest in local infrastructure, from a

12 Smuggler organisations make a profit of about 50 percent of the price paid by refugees for crossing the Mediterranean. With prices between $900 and $2,000, and a little more than a million refugees estimated to have crossed the Mediterranean in 2015, $500 million is a rather conservative estimate. See also Reitano and Tinti, "Survive and advance".

13 See "Portugal wants more refugees to help revive dwindling population", *EurActiv*, 22 February 2016, available at http://www.euractiv.com/section/global-europe/news/portugal-wants-more-refugees-to-help-revive-dwindling-population/.

Map: Economic sustainability of refugee inflow by member state



Summary index methodology: To construct the summary index, each of the four indicators of economic sustainability (public-debt-to-GDP, unemployment, change in unemployment, and population at risk of poverty) were translated into a numerical value between -2 and +2 and added up. Each country was given an overall score, which was translated into a colour based on a traffic light system, with scores of -2 in red, -1 to +1 in yellow, and +2 in red. Scores were limited to - 2 or +2 to prevent outliners in one indicator distorting the summary index.

central budget. Countries would receive a certain amount per refugee hosted in their territory, provided that certain minimum standards on living conditions and integration measures were met.

This could even help to change negative attitudes towards refugees. Research shows that spending on refugee camps usually has a positive economic effect on the area around them. This is also true for refugees coming to the EU: processing, sheltering, and providing refugees with food creates jobs for the local population. If the cost of supporting refugees were reimbursed at the European level, countries hosting refugees could benefit from the increase in economic activity without having to cut funding elsewhere, while locals would also benefit from improvements in infrastructure paid for through the fund. There would of course be the costs of paying into the central fund, but economies of scale would make the spending more efficient than national spending, and as all countries would contribute, those actually hosting refugees might become net recipients from the scheme.

3. Distribute refugees across the region based on hosting contracts with member states.

The next element of the Refugee Union would be the allocation of refugees across countries. As the European Refugee Union would cover the costs, plus a small mark-up for infrastructure, hosting refugees would be more attractive, as it would provide more jobs for existing inhabitants, and improve infrastructure.

While some regions may not agree to take in refugees even under these conditions, due to concern about cultural conflicts, it is plausible that some communities would become more welcoming once the distributional conflicts between newcomers and existing inhabitants were defused. To speed up relocation, the Refugee Union could pay a bonus in exchange for the quick acceptance of refugees. For eurozone countries that face severe budgetary constraints due to high public debt, public deficits, and unemployment, this might change attitudes. Instead of having to sell the reception of refugees to the local population purely on humanitarian grounds, politicians could sell refugees as an opportunity for ailing regions to create jobs and get money to renovate schools.

Once a country agreed to receive a certain number of refugees, the Refugee Union would allocate a group of refugees, taking into account any ties to relatives already living in the EU, giving them the right to reside in the host country. Moving to other EU countries would only be possible at special request, e.g. due to family members in other member states or concrete work opportunities, and subject to the approval of the new destination country.

It is sometimes claimed that governments cannot tell refugees where to locate, but this is not entirely true. According to the Geneva Convention, refugees must be given protection and can choose their place of residence within the country, but if they have been given protection in one country, they do not have the right to choose another country of residence. Under a centralised European asylum system that allocates refugees to a country, they would not have the right to move to another country, nor to apply for asylum in any other EU country. While there might be an issue about whether limiting the freedom of movement is compatible with EU law, the establishment of a refugee union would be an opportunity to adjust this legislation accordingly. In so far as legal rules limit the restriction of migrants' movements, economic incentives (such as the reception of benefits) would be used to incentivise them to remain in their allocated country.

The idea is that, under the Refugee Union, the allocation of refugees would move from the current top-down approach of the EU ordering (or trying to order) countries to accept refugees, towards a bottom-up incentive-based system. Relocation to countries which stand to gain a net benefit from hosting refugees could lower the average cost per refugee hosted. Countries where hosting is cheaper (e.g. because of unused housing stock) would have a greater incentive to accept refugees, and if refugees were often hosted in these places, the average cost would fall.

4. Provide systematic protection outside the EU, with the possibility of winning asylum in the EU.

In order to provide protection to as many of the vulnerable as possible, it would be necessary to finely balance the protection of refugees inside and outside the EU. Hosting all those in need of protection in Europe is not the best solution, either for the EU or for refugee-producing countries.

For example, it is well known that refugees tend to have better prospects of integrating into labour markets in countries neighbouring their home, as these are often more culturally similar. Moreover, it is more likely that refugees resettled in neighbouring countries will move back into their home country once the situation stabilises. This is important for preventing permanent brain drain from crisis countries, and for enabling reconstruction. In addition, hosting refugees in their home region is usually cheaper, as the cost of living is generally lower than in the EU.

Surveys of refugees indicate that they often stayed in third countries for a significant period before coming to the EU, and that a major reason for continuing their journey was the poor conditions, and lack of opportunities, in the third country.[14] Measures to improve the conditions of refugees who have not yet migrated to the EU should therefore form part of a systematic approach to the refugee crisis. Under a European Refugee Union, the EU should more systematically support countries in its neighbourhood with significant refugee populations.

While the recent EU–Turkey agreement, especially the agreed payments to Ankara, have been criticised, support to countries that neighbour conflict areas is the right approach. Some countries in the region have taken in many more refugees per capita than even the richest and most generous EU countries, despite much lower levels of economic development. A certain degree of burden-sharing with these countries would not only improve the conditions of refugees there, leading to fewer irregular movements into the EU, but also help to prevent internal conflicts over distribution, and hence stabilise the EU's neighbourhood.

Payments should be made in a way that directly benefits refugees, in order to limit the push factor of dreadful living conditions. One option would be to channel funding through UNHCR, which would assume responsibility for providing food and shelter. Another option would be to directly finance integration projects, or to link payments to performance criteria, e.g. to the host country establishing schools for children of refugees. The EU should also support infrastructure development, and the rebuilding of conflict-torn communities. A further avenue would be to ask neighbouring countries to create job opportunities

14 UNHCR, "Profiling of Syrian Arrivals on Greek Islands".

Table 2: Cost of hosting a refugee for one year in selected member states

Country	Year	Cost per refugee in USD	Cost per refugee in national currency	Cost per refugee in EUR	GDP per capita in EUR (2015)	Cost per refugee in percent of per capita GDP (2015)	Source
Austria	2009	3,478	-	2,484	39,174	6%	OECD
Belgium	2009	32,596	-	23,283	36,581	64%	OECD
Denmark	2009	31,235	-	22,311	46,871	48%	OECD
Finland	2009	18,450	-	13,179	37,877	35%	OECD
France	2009	12,190	-	8,707	32,740	27%	OECD
France	2013	-	-	13,724	32,740	42%	National media
Germany	2009	9,125	-	6,518	37,108	18%	OECD
Germany (high estimate)	2015	-	-	15,000	37,108	40%	National media
Germany (low estimate)	2015	-	-	10,000	37,108	27%	National media
Netherlands	2009	24,375	-	17,411	40,125	43%	OECD
Netherlands	2014	-	-	26,509	40,125	66%	National media
Poland	2015	-	16,000 PLN	11,429	46,413	25%	National media
Spain	2009	4,660	-	3,329	23,325	14%	OECD
Sweden	2009	12,592	-	8,994	45,088	20%	OECD
UK	2009	3,261	-	2,329	39,580	6%	OECD
UK (high estimate)	2015	-	23,420 GBP	32,082	39,580	81%	National media
UK (low estimate)	2015	-	10,720 GBP	14,685	39,580	37%	National media

Source: OECD, research of ECFR national offices.

for Syrians, e.g. by legalising informal businesses run by Syrian refugees. A number of such elements are found in the EU's support to Jordan.[15]

It is also important to provide refugees in the region with the option to apply for asylum in the EU without entering its territory, to discourage risky irregular border crossings across the Mediterranean. The basics of the recent EU–Turkey agreement are sound in this respect: first, there is a possibility of resettlement for refugees in Turkey, and second, those who attempt the irregular border crossing will be sent back. This should help to shift the balance of incentives away from taking the risky route across the Mediterranean.

5. Improve the quality of border controls.

To help as many refugees as possible, it is necessary to limit the flow of irregular entries into the EU. In order to discourage others from following the migration routes, it is important to send back those without protection claims quickly, and prevent them from entering the EU in the first place, even though the distinction between these "economic migrants" and refugees is often fuzzy. Otherwise, limited resources mean that the system could be overwhelmed, resulting in a failure to protect refugees. While a large proportion of applications for asylum in the EU have been granted in recent months, this is mainly due to high quotas for nationals from Syria, Iraq, and Eritrea. On the other hand, there are some countries with significant migration flows but very low success rates for asylum applications, such as Pakistan.

Three improvements are necessary here: the beefing-up of border controls, with the ability to turn back those who are not seeking protection; quick decisions on asylum applications; and ideally the opportunity to apply for asylum and await the decision outside the EU (provided there is adequate protection in the third country). In terms of border controls, Frontex and the recently proposed European Border and Coast Guard (EBCG) are tasked with supporting member states in securing the EU's external borders. Yet Frontex has been confronted with a lack of support from member states and, as a result, a lack of personnel and resources.[16] A European Refugee Union could provide funds to create a permanent staff with its own equipment and increase the size of Frontex considerably, or, alternatively, to reimburse member states which either lend national personnel to Frontex or take responsibility for specific tasks in securing the EU's external border.

To keep refugees from entering the EU irregularly, the authorities should offer a speeded-up decision process for those from countries with low chances of success in asylum applications and create processing and asylum application centres outside the EU. These could be in North Africa (as proposed by the European Commission in 2015), or even further from the EU's external borders. These centres would allow migrants to file their asylum claim without the dangerous sea crossing to Europe, and spare the EU the cost of border protection. To create incentives for refugees to use these centres instead of the shores of the EU, they should offer the same chance of acceptance as applications filed in the EU itself.

Financing the European Refugee Union

Given that four million Syrians are currently refugees and more than six million more are displaced within the country – and given the instability in much of North Africa – Europe may not yet have seen the largest part of refugee inflows.

In order to gauge the upper limit of the costs of a refugee union, we will use a pessimistic forecast, according to which the EU will be confronted with 3.5 million refugees (including both recognised refugees and those applying for asylum) to be hosted within its member states over the coming years, and several million more who will be partly dealt with outside its borders. This calculation will be important in the debate over whether the EU can afford a generous humanitarian policy towards refugees, offering an estimate of the upper limit costs of a comprehensive yet generous approach to the refugee crisis.

While the costs of hosting refugees differ between countries, a refugee can in general be properly processed, housed, and fed, and given medical care at the cost of 35 percent of the host country's per capita GDP. To substantiate this claim, Table 2 gives an overview of reported costs from different European countries and sources. The huge variance between countries with similar standards of living is due in part to different calculation methodologies. Some countries include the cost of their entire migration administration, while some include the cost of deporting those who do not gain legal status. Trying to adjust for these differences, the 35 percent of per-capita GDP seems reasonable, given that this figure is already significantly higher than spending on one citizen receiving out-of-work welfare benefits.

For EU member states, this would give us an average fiscal cost per refugee and year of roughly €10,000. For 3.5 million refugees, this would come to €35 billion per year. Assuming that the other costs of the European Refugee Union – such as providing support to refugees in other regions, and policing the EU's external borders – would equal as much as the costs of hosting refugees (again, a generous estimate given the relatively small sums spent on these policies so far), we would get a total cost of €70 billion per year, about 0.5 percent of the EU's total GDP.

Of course, this is a significant amount. However, it should be noted that it is far from a sum that would overburden the member states as a whole, and that it is dwarfed by the amounts which were used in the financial crisis to stabilise

15 See "The Jordan Compact: A New Holistic Approach between the Hashemite Kingdom of Jordan and the International Community to deal with the Syrian Refugee Crisis", London, 4 February 2016, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/498021/Supporting_Syria__the_Region_London_2016_-_Jordan_Statement.pdf.

16 Sergio Carrera and Leonhard den Hertog, "A European Border and Coast Guard: What's in a name?", CEPS Paper in Liberty and Security in Europe, No. 88, 8 March 2016, available at https://www.ceps.eu/publications/european-border-and-coast-guard-what%E2%80%99s-name.

the European banking system. In fiscal terms, accepting 3.5 million refugees into the EU should not be a problem, if it is properly managed.

Still, given the limits on the EU's budget and the political difficulties of reform – raising €70 billion from the existing budget would probably require an overhaul of the Common Agricultural Policy, which makes up a substantial part of the budget – it would be unrealistic to hope to mobilise resources of this magnitude merely by shifting funds around. It may also be unrealistic to get this amount in additional transfers from national budgets to the EU, given that budgets are already strained and many countries are struggling to fulfil their commitments under the Stability and Growth Pact and other budgetary rules for eurozone countries.

One solution that has been proposed is to allow member states not to count costs for refugees under EU rules for budget deficits, so that countries could borrow the necessary funds rather than having to cut spending or transfers. Another idea is that elements of the Refugee Union that require extra funds quickly could make use of joint borrowing along the lines proposed by Open Society Foundations' founder George Soros, potentially using existing facilities such as the European Financial Stabilisation Mechanism (EFSM).[17]

Unfortunately, this type of facility, as Soros has argued, would amount only to bridge financing and is not a permanent solution. As many of the eurozone countries already have a level of public debt whose sustainability is questionable, allowing them to borrow more would be dangerous in the long term. A permanent solution would therefore require new revenue sources. Funding options that have been proposed include a European surcharge on the tax on gasoline and diesel, as recently suggested by German Finance Minister Wolfgang Schäuble.[18]

In the medium and long term, a European Refugee Union would actually be growth-enhancing, as it would reduce uncertainty and help migrants to integrate more quickly into local labour markets, increasing potential output.

Towards a European Refugee Union

Of course, the European Refugee Union is a bold proposal. Implementing it fully would take several years, and the EU cannot wait that long before acting. It is therefore crucial to work at the same time on transition measures, and to sequence the union's elements correctly. Certain steps could be agreed on and implemented quickly, but it would be more difficult to hire staff and build permanent structures, as well as establishing rules for common asylum decisions.

In the meantime, therefore, EU member states should take intermediate actions that would not become obstacles for a future European Refugee Union. Burden sharing by task would be an option, with, for example, Germany taking charge of registering refugees and Sweden controlling parts of the external border. More details of how the burden could be shared between member states are set out in the forthcoming ECFR paper by Susi Dennison and Josef Janning, "Bear any burden: How EU governments can manage the refugee crisis", which proposes how different countries could best contribute in terms of foreign policy, resource contributions, and hosting refugees.

It would be easy to dismiss the idea of a European Refugee Union as unrealistic, given that some member states have not accepted the relocation of refugees into their territory, and given the fierce debates about the right approach to dealing with the crisis. However, a similar argument could have been made for the largest integration step of the past decade: the European Banking Union. Before 2008, it was undisputed that banks were an important part of national sovereignty, and no state would have given up control over such an important sector voluntarily. While there were some common European rules for the regulation of banks, their implementation was only loosely coordinated. However, since 2012 – following the financial crisis and ensuing euro crisis – all oversight and regulation has been centralised in European institutions, with the European Central Bank (ECB) taking the lead, leaving national bodies as subordinate organisations.

This change did not come about easily. For the first years after the financial crisis, member states tried to deal with the problems in the banking sector on their own, with limited coordination at the European level. The result was that the initial financial crisis morphed into the much more threatening euro crisis. Even then, not all member states agreed with the idea of a banking union, and it only came about once a sufficient number of member states saw the necessity, with others pushed by more powerful states, such as Germany.

A similar process is also possible for the European Refugee Union. As the crisis continues, it is plausible that a number of member states will conclude that a comprehensive solution is the way forward, even if they were previously unwilling to accept refugees.

Of course, the reception of refugees is a much more emotional topic than banking, and a refugee union might not be as easy to introduce as a banking union. Yet emotions also run high in some countries around the issue of personal savings. In Germany, for example, the nationalist Alternative for Germany (AfD) party was founded and won its first victories in parliamentary elections not because of refugee arrivals, but because of the euro crisis and Germans' fear for their savings. Similar points apply to right-wing parties in the Netherlands and Finland.

A European Refugee Union would differ in one important aspect from the solutions sought so far: it creates permanent

17 George Soros, "Europe: A Better Plan for Refugees", the *New York Review of Books*, 9 April 2016, available at http://www.nybooks.com/daily/2016/04/09/europe-how-pay-for-refugees/, and "George Soros: Here's my plan to solve the asylum chaos", *MarketWatch*, 29 September 2015, available at http://www.marketwatch.com/story/george-soros-heres-my-plan-to-solve-the-asylum-chaos-2015-09-29.

18 "Germany's finance minister proposes petrol tax to fund refugees", *Deutsche Welle*, 16 January 2016, available at http://www.dw.com/en/germanys-finance-minister-proposes-petrol-tax-to-fund-refugees/a-18984764.

rules and permanent structures beyond ad hoc responses to immediate emergencies in various member states. The Refugee Union would provide insurance for future changes in refugee routes into the EU and also for future refugee crises which might emerge in countries neighbouring the EU, including in Eastern Europe.

The European Refugee Union would appeal to different member states for different reasons. Those that are already receiving and hosting large numbers of refugees, such as Germany and Sweden, would be attracted by the prospect of burden sharing. For Italy, a refugee union would provide insurance against a shift in refugee flows through the western Mediterranean, or the further destabilisation of Libya. For France and Spain, a refugee union would also provide insurance against shifts in refugee flows through other routes across the Mediterranean. The newer Central and Eastern European member states would be extremely exposed if there were even a moderate refugee flow from Ukraine or Belarus, and a refugee union would guarantee that they would not face this alone. Finally, countries recently hit by terrorism, such as Belgium and France, could see in a refugee union a means to better protect Europe's external borders against the entry of would-be terrorists, as the system of central processing and registration would be more effective than the current chaotic situation on the Greek islands.

If this is not enough to convince a sufficient number of member states, it would be the role of the large states such as Germany and France to make clear that the single European markets (including the free movement of labour) have brought immense benefits to all member states, and that the costs of removing borders should also be shared. It should be clear that those who are unwilling to contribute either in-kind or financially should see cuts in the share of the EU budget flowing to their countries.

A European Refugee Union has an element of utopia to it. But, economically, it is the most viable and sensible approach to the refugee crisis. It may not be an easy sell politically, but its chances are better than they appear at first sight.

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