

# EFFICIENT SOLIDARITY MECHANISMS IN ASYLUM POLICY: A EUROPEAN PROPOSAL

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# Where do we stand?

- *The EU Commission decided to give solidarity in the field of asylum a practical meaning in the form of a quota system: 180,000 refugees/asylum seekers to be relocated (160,000)/resettled (20,000) in two years.*
- *EU-Turkey deal on resettlement only reshuffled relocation and resettlement (no new numbers).*
- *State of play: 16,024 relocations (as of April 4<sup>th</sup>), 14,422 resettlements (3,565 within the EU-Turkey deal; as of February 27<sup>th</sup>). 19 per cent of the objective for two years in 18 months.*

<https://www.easo.europa.eu/relocation-0>

# What do we propose?

*We propose to supplement the quota system with two important additions that:*

- make it more efficient (cost-effective) from the perspective of host countries and, therefore, make them more likely to participate;*
- allow for taking refugees' preferences into account, hence improving their integration prospects;*
- introduce a sanction mechanism that gives countries incentives to treat refugees decently.*

# The proposal: TRAQs with matching

*Think of it as a 3-stage rocket*

- *1<sup>st</sup> stage: allocation of “**initial quotas.**” We follow the EU distribution key: population, GDP, unemployment, past refugees.*
- *2<sup>nd</sup> stage: the “**matching mechanism,**” whereby refugees’ preferences over destinations and destination countries’ preferences over refugee types are taken into account.*
- *3<sup>rd</sup> stage: the “**tradable quotas system.**”*

*Note that the 3<sup>rd</sup> stage cannot work without the other two, and the 2<sup>nd</sup> cannot be implemented without having the 1<sup>st</sup> stage in place – hence the rocket metaphor.*

# Stage 1: Initial Quotas

We take the current system, proposed by the European Commission and approved by the European Parliament and the European Council, as given but note that there are now three rules for allocating responsibilities for protection:

- Dublin regulation: refugees are the responsibility of the receiving state.
- Relocation/resettlement distribution key: 40% population, 40% GDP, 10% unemployment, 10% past refugee arrivals.
- Financial contribution: Asylum, Migration and Integration Fund coming from the EU budget (GNI, VAT, etc.).

# Stage 2: the Matching Mechanism

It has two components:

- Taking refugees' preferences over destinations into account.
- Taking countries' preferences over refugee types into account.

The matching mechanism is adapted from the literature on college admissions and its application to the allocation of junior doctors to hospitals in the US.

As the name reveals, its goal is to optimize the quality of the match between a refugee and a destination. Properties:

- “incentive compatible” (leads to truthful revelation of preferences).
- “efficient” (no Pareto-improvements possible).
- “fair” (equal treatment).

Main issue: no refugee can be forced to move to an undesired destination.

# Stage 3: Tradability

Tradable quotas are appropriate where:

- There are externalities involved (here, refugee protection is an international public good).
- Transaction costs are low (here, the institutional setting already exists).
- Countries have very different (objective and subjective) costs of hosting refugees:
  - Direct Costs: Reception and accommodation, Administrative procedures, Potential removal, Potential integration measures, etc.
  - Indirect Costs/Benefits: immigration surplus associated with refugees and asylum seekers, net fiscal contribution, social and political costs, etc.

# TRAQs in Practice:

## Compensation Mechanism

- Efficiency is obtained as long as countries for which it is costly to host refugees (refugee-unfriendly countries) compensate refugee-friendly countries for the part of the quota they do not assume.
  - Allow countries to choose to exert their solidarity physically (receiving quotas) or financially (paying others).
- The market solution can be replicated through taxes and subsidies.
- Current system:
  - Taxes: contributions to the EU budget, proposal of a penalty amounting to 250,000 euros per refugee (previously just 0.002% of GDP) if quota not accepted.
  - Subsidies: 6,000 euros per refugee.



# TRAQs in Practice: The Penalty

- Suppose a country tries to “break” the market:
  - It offers to receive all the refugees in Europe for a given price.
  - It treats refugees very badly so that no one chooses to go there in the matching algorithm.
- To prevent this from happening, we introduce a penalty.
- Countries are only compensated for the actual refugees they receive, not for their market offers.
- They have to pay the price for the refugees that end up not going there.
  - These refugees would remain in their original location, i.e. Italy, Greece or their refugee camp, and these locations would get the amount gathered from the penalty.

# TRAQs in Practice: Simulations

Total Cost	Quad-Rev-60000	Cub-Rev-60000	Quad-Rev-180000	Cub-Rev-180000
Voluntary quotas	152,013,000	101,342,000	152,013,000	101,342,000
EU quotas	4,416,478,043	3,256,233,092,708	39,748,302,385	87,918,293,503,105
Market quotas	213,135,459	168,247,126	1,918,219,135	4,542,672,406
Quota Price	7,105	8,412	21,314	75,711
Total Cost	Quad-Stat-60000	Cub-Stat-60000	Quad-Stat-180000	Cub-Stat-180000
Voluntary quotas	250,797,551	1,326,338,843	250,797,551	1,326,338,843
EU quotas	343,675,846	2,745,878,288	3,093,082,613	74,138,713,778
Market quotas	197,994,092	593,300,455	1,781,946,826	16,019,112,289
Quota Price	6,600	29,665	19,799	266,985

# Simulation with quadratic costs and stated preferences for 180,000 refugees

Countries	<i>Initial quotas (EU proposal)</i>	Refugee Cost Parameter: taken from Eurobarometer 2011	Market Quota	Cost Reduction with respect to initial quota
Germany	46,463	11	32,495	9%
France	35,351	26	11,206	47%
Spain	21,881	9	22,871	0%
Poland	13,860	7	24,036	54%
Netherlands	10,637	8	9,310	2%
Romania	6,750	7	12,611	75%
Belgium	6,676	27	1,836	53%
Sweden	6,537	4	10,671	40%
Hungary	3,529	31	1,410	36%
Slovakia	2,187	19	1,262	18%
<b>Total</b>	<b>180,000</b>		<b>180,000</b>	<b>42%</b>
<b>Quotas traded</b>			<b>32%</b>	

# Fiscal costs of refugees vs. penalties/subsidies

Countries	AMIF Subsidy per refugee	Old penalty per refugee refused	New penalty per refugee refused	Fiscal cost per refugee in 2015 (IMF, 2016)
Germany	6,000	1,255	250,000	12,238
France	6,000	1,206	250,000	13,999
Spain	6,000	952	250,000	4,227
Poland	6,000	596	250,000	n/a
Netherlands	6,000	1,246	250,000	26,528
Romania	6,000	444	250,000	n/a
Belgium	6,000	1,200	250,000	8,074
Sweden	6,000	1,317	250,000	13,254
Hungary	6,000	591	250,000	588
Slovakia	6,000	688	250,000	n/a
<b>Average</b>		<b>1,549</b>		<b>13,703</b>

# Other proposals

- Blocher and Gulati (2016). Refugees would be endowed with an asset (a subsidy) so that receiving countries would have incentives to compete for them.
  - Who pays for the asset? The country originating the refugee flight: Syria, Irak, etc.
  - How large should the subsidy be?
- Humanitarian Investment Fund for Refugees (Talbot, Postel and Barder, 2016). The subsidy (they call it voucher) would be funded by donor countries. They run a simulation resettling 100,000 refugees at \$40,000 per refugee: total cost of \$4 billion.
- EU Refugee Bonds (Corsetti et al., 2016).
- Matching without compensation (Jones and Teytelboym, 2016; Guild et al., 2017).
  - Incentives for receiving countries to appear unattractive so as to avoid receiving refugees.

# Conclusion

The mechanism we propose reduces the expected cost for receiving countries in three ways:

- First, the “tradable quotas system” allows countries to contribute to refugees’ resettlement either through visas or through money: it makes it possible for countries to exploit their comparative advantage in hospitality.
- Second, the fact that refugees’ preferences over destinations are taken into account makes them less likely to leave the country and improves their integration prospects, thereby reducing the cost of integrating them.
- And third, the fact that countries can express their preferences over the type of refugees they would like to host also reduces the expected costs.

# Conclusion

- The important expected cost reduction makes it more likely that more countries will want to participate.
- The fact that refugees' preferences –to some extent– are taken into account improves their long-term integration prospects and should therefore draw support on the side of NGOs.
- The mechanism allows for experimentation, learning and flexibility.
- Actually, it would be a good idea to implement TRAQs alongside the existing EC proposal in a way that will allow for impact evaluation.