

Refugee's Effect on The Economy

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ABSTRACT

Every year, over 32 million people are displaced and forced to flee their country, creating a refugee crisis. The dilemma then becomes what to do with these people. While it would be humanitarian to accept them, governments must weigh many factors, such as the economy, human rights, and citizen well-being when deciding their policies. This paper examines this issue of refugees through one of those factors: an economic lens. Refugee data was taken from three countries: The United States of America, Lebanon, and Germany. These countries were chosen because they are from different areas of the world and face different circumstances. Data was taken from periods when there was a refugee spike or a change in border policy—for example during US policy changes in the late 1800s and early 1900s. The refugee data from these periods was then compared to economic factors, such as G.D.P. and unemployment to determine the effect of refugees on the host country's economy.

Background on The Countries Refugee Crisis

Background on the U.S.A

In 1776, the United States gained independence from Great Britain and established an open border policy. The U.S. population grew immensely during this time, and over five million immigrants entered the country between 1815 and 1860 (Prinz et al., n.d). Many fled famine, job losses, high taxes, or poor conditions. The late 1800s saw nine million more immigrants come to the country, as Russians and Jews ran from massacres (Library of Congress "A People at Risk") or Armenians fled to America to escape violence and persecution (Takooshian n.d).

However, in the late 1800s, immigrants arrived at processing locations like Ellis Island, shifting away from America's open border policy. Then, in 1875, public unrest with the growing Chinese population led to the 1875 immigration act that banned Chinese women from entering the country (Hijar, 2022). A few years later, The Chinese Exclusion Act was passed, prohibiting all Chinese immigration to the U.S. (National Archives "Chinese Exclusion Act 1882"). This trend continued as additional restrictive policies were passed, like formalizing the naturalization process or denying land ownership to noncitizens.

In 1917, the U.S. passed the immigration act that banned many people from Asian countries, excluding Japan and the Philippines. It mandated a literacy test for immigrants (U.S. Department of State, "The Immigration Act of 1924"). Then, in 1921, the Emergency Quota Act was passed, limiting the number of people entering the country to 3% of the total foreign population of each nationality based on the 1910 census (Immigration History, "Emergency Quota Law"). In 1924, the National Origins Quota Act, also known as the Johnson-Reed Act, was passed, essentially adjusting immigration policy to allow for only a defined quota of immigrants allowed into the country of 2% and altogether banning people from Asia (U.S. Department of State, "The Immigration Act of 1924"). As a result of these laws being passed, the number of people entering the country and the percentage of foreign-born people in the country decreased dramatically.

However, in the following decades, the U.S. has become more open. In 1942, Congress repealed the Chinese Exclusion Act, and in 1948, the U.S. accepted 200,000 WWII refugees as part of the Displaced Persons Act. In 1965, the Hart-Celler Act abolished the National Origins Quota and increased access for new immigrants (Hart-Cellar Legacies). Currently, the U.S. allows 675,000 immigrant visas per year, leaving it a country with semi-open borders, willing to accept some people regardless of race or origin (*How the United States Immigration System Works, 2021*).

Background on Lebanon

As of 2018, Lebanon is a country of 4.6 million Lebanese and 1.5 million Syrians. In 1943, Lebanon gained independence from the French and created a government system that gave Christians slight control over Muslims (Hikma History, 1:10-4:14). Over the next two decades, Lebanon enjoyed a period of prosperity and was dubbed the Paris of the Middle East (Sharif, 2017). However, in the late 1960s and early 1970s, tensions began to build between Christians and Muslims, culminating in a civil war from 1975 to 1990 that ultimately resulted in Muslims gaining more power in the government (Hikma History, 7:30-8:24).

While this was a civil war, it was also a proxy war, and a key contributor was Syria, which, even after the civil war, had Syrian troops occupying Lebanon for 15 years. While they eventually left after Lebanese protests following the death of Prime Minister Rafik Hariri, tensions remained high between Lebanon and Syria. Years later, this resulted in the poor treatment of Syrian refugees in Lebanon.

In 2011, protests of the Arab Spring in Syria evolved into a full-on civil war between rebel groups and the government (Britannica). As a result of this war, millions of Syrians were displaced, and 1.5 million fled to Lebanon (U.N.H.C.R., "Lebanon at a Glance"). This led to Lebanon having the most refugees per square kilometer globally and the largest percentage of refugees and caused great unrest among the Lebanese. In 2014, Lebanon's cabinet voted to adopt a policy that halted refugees from entering the country. Additionally, they created policies that made it difficult for Syrian refugees to renew their residency, leading to only 5% of the 1.5 Syrians in Lebanon successfully obtaining residency. Without residence, you can not own land or hold many desirable occupations. This is one of the reasons 90% of Syrian refugees live in extreme poverty. Racial discrimination, such as underpaying or not being hired, has also contributed to Syrians' poor living conditions (Human et al., "*Residency Rules Put Syrians at Risk*").

Lebanon also faced hardships during the past decade. Between 1990 and 2010, Lebanon experienced respectable economic growth (Figure 2). Lebanon set attractive interest rates, obtained substantial foreign investment, and, with the help of the World Bank and the International Monetary Fund, Lebanon's economy saw initial great success post-civil war (Kaufman, 2021). While economic growth slowed in the 2000s, its economy continued expanding, growing its G.D.P. a total of \$34 billion between 1990 and 2010, despite the tumultuous environment in its neighboring countries.

However, this economic growth slowed considerably in the early 2010s before eventually crashing (Macrotrends, "Lebanon Economic Growth"). Throughout the 2010s, Lebanon slowly accumulated debt due to poor investments and misuse of government funds. Thus, the

Lebanese economy collapsed in response to the COVID-19 pandemic, and the explosion of a prominent port in Beirut, Lebanon's biggest city. In 1990, Lebanon established a fixed exchange rate of 1500 lira to 1 USD. Due to significant inflation, currently, the exchange rate is 100,000 Lira to 1 USD. To put this into perspective, the average worker made \$1,500 annually before the inflation, but post-inflation, they made just \$150 (Russel, 2023).

Lebanon is now a country in peril. Government systems are poor; only 5% of Lebanese citizens receive government assistance despite 25% skipping meals due to financial hardship. In January 2022, unemployment reached 62.5%, and Lebanon faces a severe brain drain as thousands of young professionals leave (Human et al., "*Lebanon: Rising Poverty, Hunger Amid Economic Crisis*"). These issues have led to an even harsher crackdown on Syrian refugees as the government looks for a scapegoat. Army officials have raided Syrian refugee houses, and officials have begun calling for Syrian refugees to return home (Sewell & Chehayeb, 2023).

Background on Germany

In 1992, following the fall of the Soviet Union, a series of ethnic wars broke out. As a result, two million people were displaced, and nearly 500,000 fled to Germany. In 1992, 438,000 people filed for asylum in Germany, accounting for 80% of all asylum seekers in Europe that year (Bierbach, 2018). They were met with cold reception, as many German citizens embraced far-right anti-refugee sentiment. Riots and hate crimes against refugees rose. Refugee property was vandalized and set on fire, and some refugees were even killed (Bierbach, 2018). As a result of this right-wing rise, on July 1, 1993, Germany established a new law that stated anyone who came from a country free of persecution or a safe third-world country would not be granted asylum (Leise, 2007). This led to a sharp decline in the total number of refugees.

However, when the Syrian refugee crisis began in the 2010s, Germany accepted many refugees again, citing its experience helping refugees, its ability to use refugees to promote economic growth, and its constitutional right to help refugees. Germany opened its borders with no upper limit. As a result, 1.4 million Syrian refugees entered the country in the years immediately after the war. (Macrotrends, "Germany Refugee Statistics"). This time, many Germans welcomed the Syrian refugees, even greeting them with applause at the train station when they entered.

Germany is again seeing an influx of refugees due to the Russia-Ukraine conflict. Germany has allowed the immigration of Ukrainian refugees without visas and provided 14 billion euros of financial aid to over one million refugees (Federal Foreign Office, "*Germany's Support for Ukraine*"). Germany today is seen as one of the most prominent economies in the world. Following its collapse after World War II, Germany has done a phenomenal job rebuilding and has seen significant economic growth annually. It did face a recession in 2003. During this period (1998-2005), Germany only saw an average of 1.2% G.D.P. growth annually, and unemployment rose to 11.2% in 2005. Economists blame this on the decline in German exports, the adoption of the Euro in the E.U. (which struggled initially), and outdated labor laws that forced companies to overinvest in their workers. Following labor reforms, Germany quickly exited its recession.

Analysis of Data

Data and Analysis of the U.S.A

Figure 1 presents data on the number of refugees and G.D.P. for the United States from 1870 to 2021. The data shows no correlation between the number of immigrants and G.D.P. During this period, G.D.P. increased almost every year, except during the Great Depression (caused by bank failures and the stock market crash) and the 2008 recession—fueled by lax lending standards that created a housing bubble. Many bought homes during this time, and when the housing bubble burst, and the value of homes crashed, and a recession occurred (Singh, 2023). In both of these crises, the United States quickly recovered, and its GDP increased again in the following years (Measuring Worth). Meanwhile, the number of immigrants and refugees fluctuated, often based on policies. In the late 1800s, the number of immigrants increased to a few hundred thousand before peaking in the early 1900s, as poverty hit areas of Europe and America began to be known as the land of opportunity (Library of Congress, “Immigration to the United States”). Following this surge, America started to enact restrictive policies such as the National Quota Act, and the number of immigrants decreased significantly.

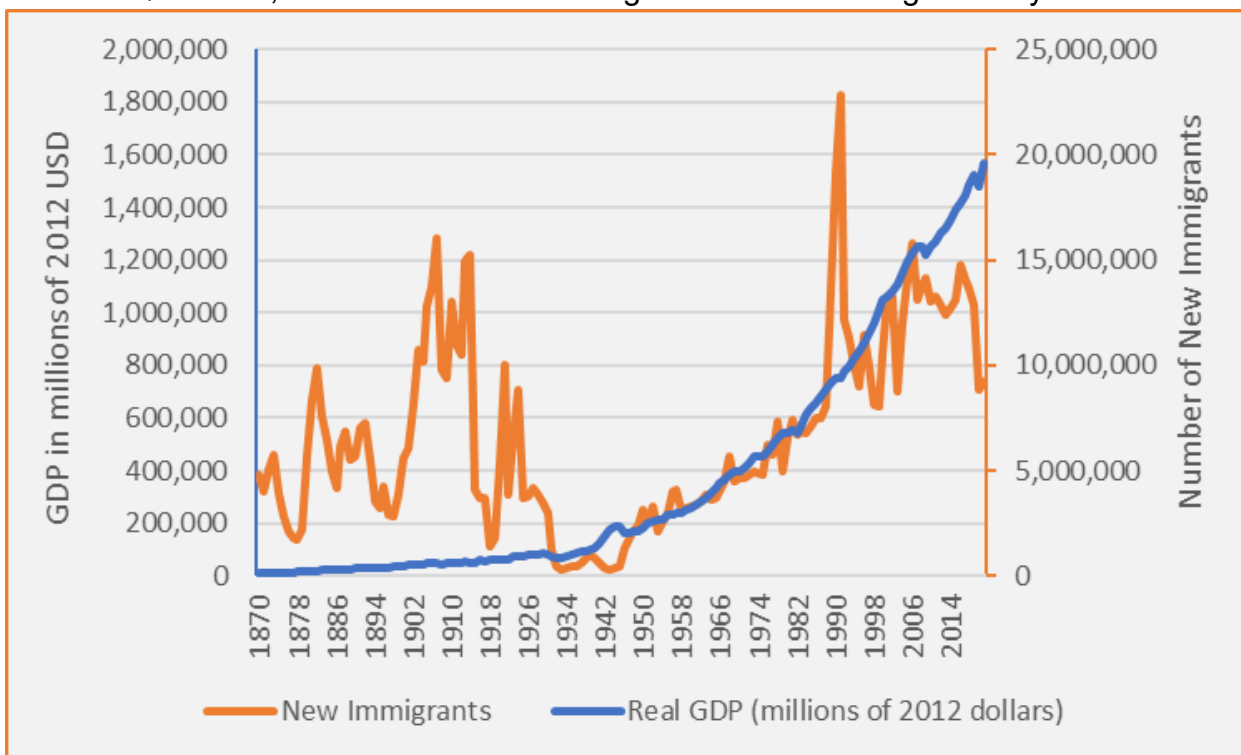


Figure 1: Number of New Immigrants annually vs. U.S G.D.P.

These differing experiences help explain the lack of correlation between G.D.P. and the number of new immigrants entering the U.S. annually. The most likely explanation for this trend is that the number of new immigrants was too small to make a sizable impact on overall G.D.P. For example even in 1991 when there were approximately 1.8 million new immigrants in the U.S., that is a small bump in population when you consider that the total U.S. population at the time was 235.5 million people. A minor population bump such as this would not likely have a sizable effect on G.D.P.

Another thing to consider is that other factors affect G.D.P. more. Given that G.D.P. has consistently grown regardless of immigration fluctuation, it is fair to say that some other factor is

leading to the strong G.D.P. growth. Factors such as innovation, a politically stable environment with minor corruption (relative to other governments), and solid natural resources have all been consistent during this period, making it more likely that they drove economic growth.

Data and Analysis of Lebanon

Figure 2 presents data on Lebanon’s G.D.P. vs. the number of refugees from 1991 to 2021. The data shows a slight correlation between G.D.P. and the number of refugees. Generally, when the economy was growing, the number of refugees was growing or staying the same, and when the economy was shrinking, the number of refugees also decreased. G.D.P. continued to rise during the Syrian crisis despite the initial refugee spike. However, in 2015, the refugee intake slowed, and then G.D.P. decreased too in 2019.

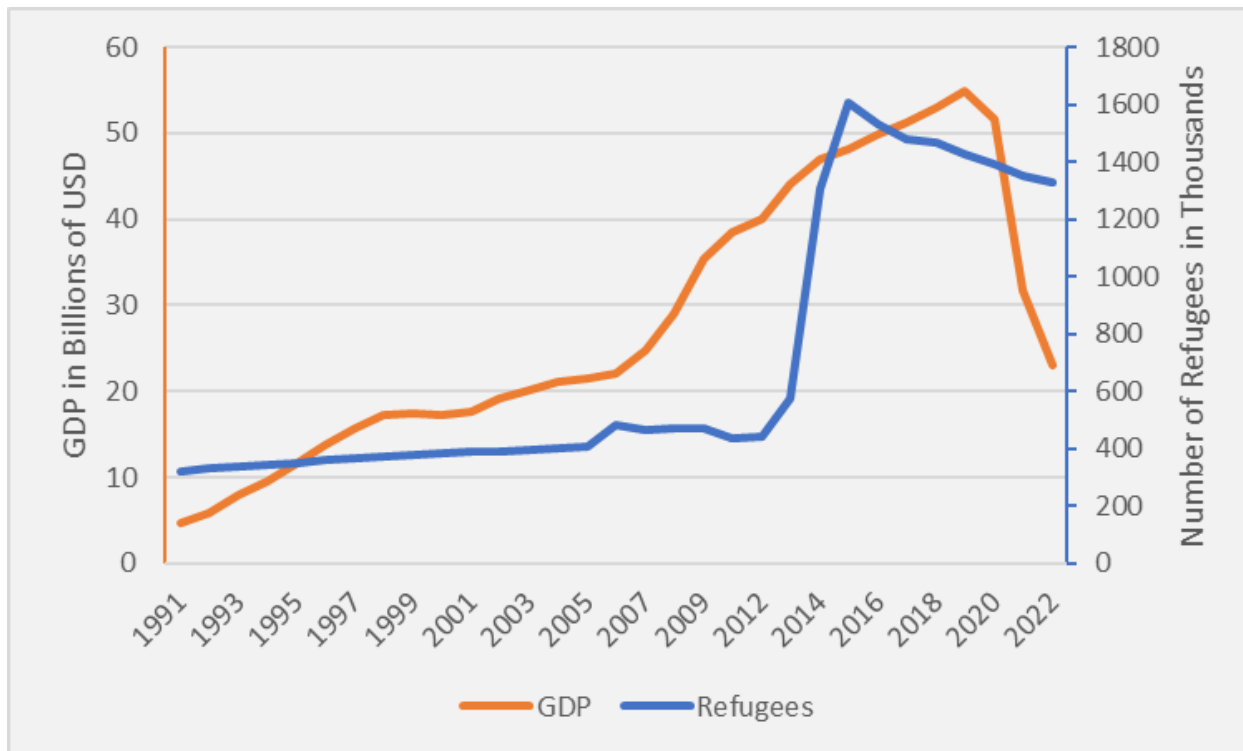


Figure 2: Number of Refugees in Lebanon vs. G.D.P. of Lebanon. Data from:

Even when there is a trend such as this, the correlation between the two is not proportional. For example, when the civil war started in Syria, there was a massive spike in refugees. However, over those three years (2012-2014), G.D.P. only grew by 2.95%. For reference, in 1991, Lebanon’s G.D.P. grew by a whopping 49.45% as they exited their civil war (Macrotrends, “Lebanon Economic Growth”).

Additionally, Figure 3 shows how unemployment improved despite the influx of Syrian refugees. This is probably because refugees are willing to take lower-paying jobs that are dirty, dangerous, and in low demand (Jarman, 2018). Also, in theory, a more significant population should have increased aggregate demand and, in turn, labor demand. However, in the case of Lebanon, the biggest reason for unemployment being unaffected is that the government made it hard for Syrians to obtain residency, which made it difficult for them to find work. Currently the

Lebanese government also only allows Syrians to work in agriculture, cleaning, and construction. These factors meant they were not competing with the Lebanese for jobs, which explains why they did not negatively impact unemployment.

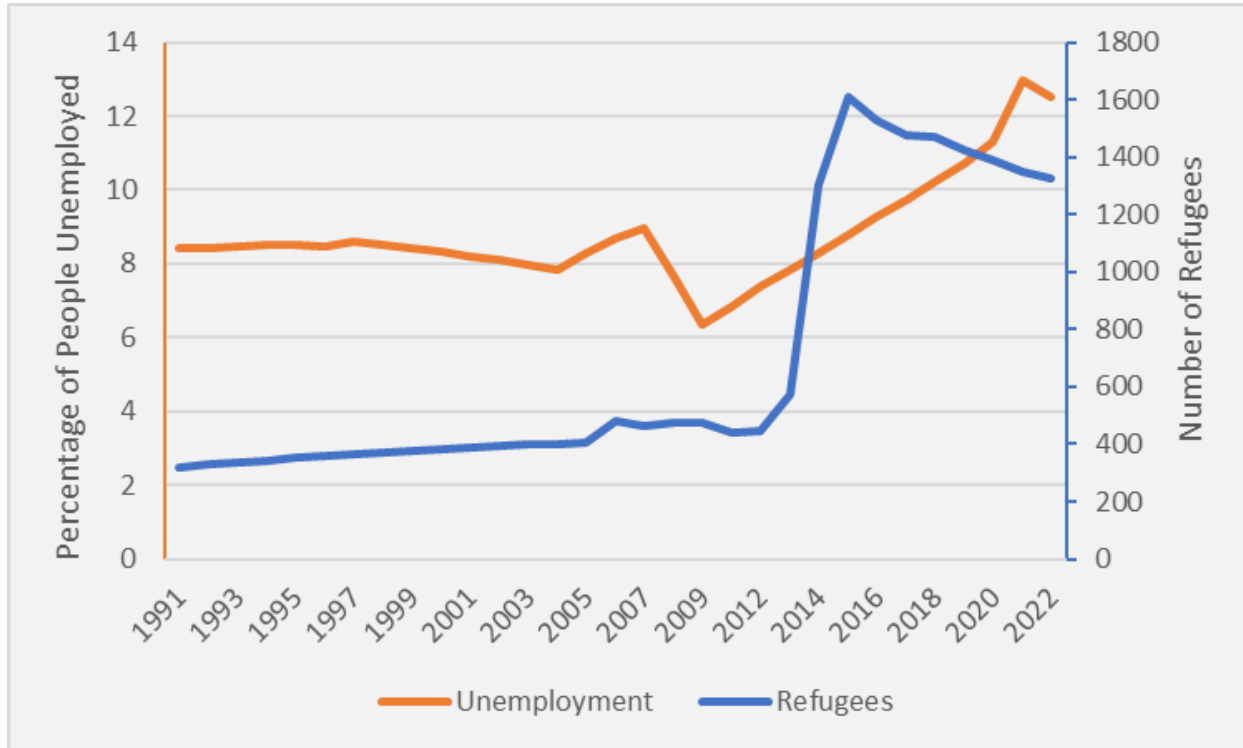


Figure 3: Lebanon Unemployment Percentage vs. Number of refugee in Lebanon

However, some believe the refugees contributed to the economic crash, as the two events happened in short succession. One thing to note is the poor treatment of the refugees, where Lebanon gave them few opportunities to integrate and contribute to the economy. Syrian refugees must get a residency license to get a quality job, rent an apartment, get an education, have full access to healthcare or get a license. Lebanon has made getting a residency permit expensive and challenging. For example, they instituted a rule that requires a sponsor to obtain residency. This resulted in many Syrians being unemployed and poor, giving them few resources or aid in order to contribute to the economy. In other words, Lebanon gained 1.5 million people who do not contribute much to G.D.P. growth while still having to pay for all the expenses that come with refugees. Based on this, one could hypothesize that this influx of refugees had negative impacts on economic growth.

In contrast to the order of events, there are signs that the economic crash in Lebanon was unrelated to refugees. In January 2019, when the Lebanese economy began to crash, Lebanon was already \$85.5 billion in debt. This debt crisis began in the early 2010s, as foreign inflows, or remittance slowed (Lebanon relies heavily on foreign inflow to maintain public spending and exchange rate) (*Lebanon- Trade Financing, 2022*). One example is that many Lebanese diaspora worked in the oil sector, so when oil prices decreased in 2014, so did the remittance (Rickards, 2020). With less inflow, Lebanon began to fall into debt, and in 2018, before the election, politicians spent a lot in government expenditure. When the government failed to uphold reforms, foreign donors held back from donating billions.

Additionally, during this period, the government made poor decisions. Many economists have compared the Lebanese government to a Ponzi scheme that benefited the elite. The corrupt government manipulated money to assure the people that their deposits were safe while the economy crumbled. In 2019, Lebanon’s government defaulted on its debts, banks shut down, and the economy began to collapse. The following year, the COVID-19 pandemic hit, and a significant port eruption in Beirut further amplified the damage. In conclusion, refugees impacted the Lebanese economy, but to what extent is hard to determine. The economy crashed when refugees arrived, but many factors that contributed to the crash are not connected to refugees.

Data and Analysis of Germany

Figure 4 presents data on Germany’s G.D.P. vs. the number of refugees in Germany from 1970 to 2021. The data show little correlation between the number of refugees and G.D.P. During this period, Germany saw consistent G.D.P. growth. G.D.P. decreased significantly once during these 50 years, from the late 1990s to the early 2000s when Germany went into recession. On the other hand, refugee numbers fluctuate regardless of G.D.P.

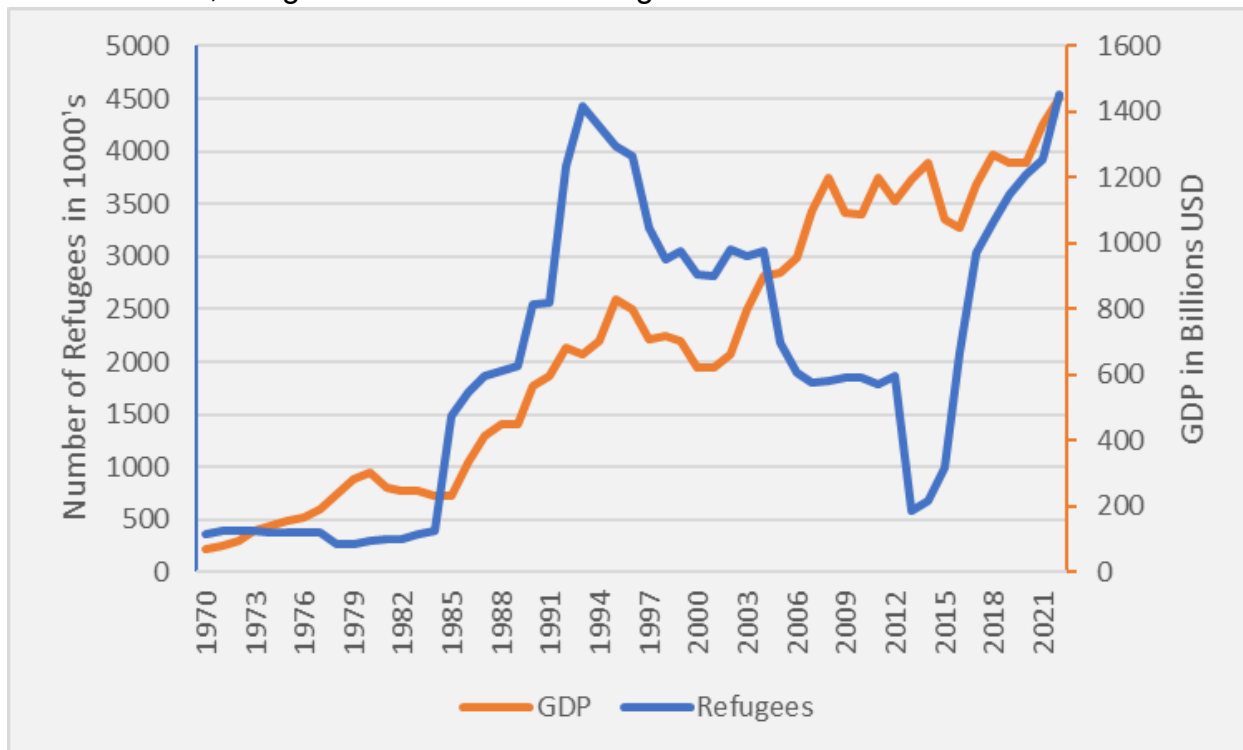


Figure 4: Number of Refugees in Germany vs. G.D.P. of Germany

There are a few possibilities when considering why refugees had a limited impact on G.D.P. growth. The first and most apparent is that despite the large number of refugees that Germany admitted, refugees still comprise a small percentage of Germany’s population. For example, in 1994, when Germany admitted roughly 1.3 million refugees, accounting for just about 1.6% of the total population. This small population will be unable to make a sizable impact on the economy. Similarly, while Germany did spend \$21.6 billion on refugees, considering the

German economy is worth \$4 trillion, this spending on refugees is negligible. A possibility is that refugees affected factors other than G.D.P. Many believe that refugees take jobs or make life worse for the host country's citizens. However, Figure 5 shows no correlation between the number of refugees and the unemployment rate in Germany. In fact, despite the high number of refugees in recent years, unemployment has consistently decreased.

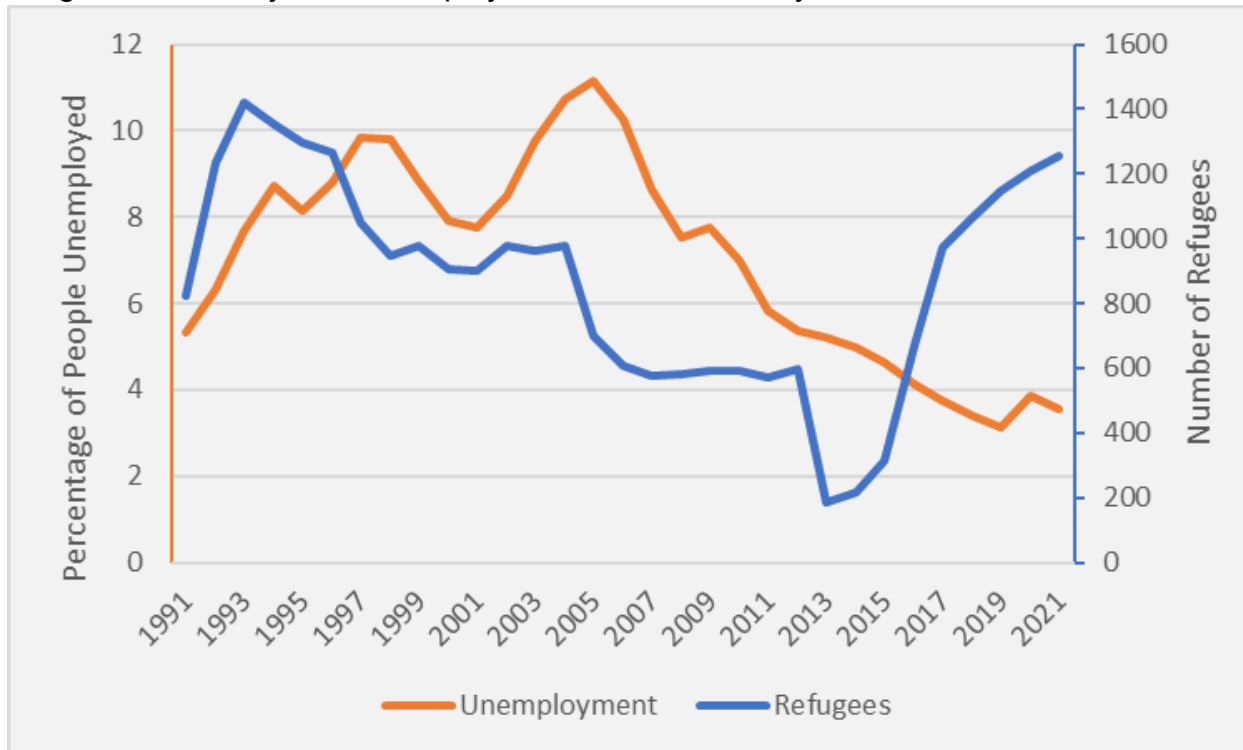


Figure 5: Germany Unemployment Percentage vs. Number of Refugees in Germany

When looking at overall living standards, the Human Development Index (HDI) measures its citizens' health, knowledge, and standard of living and gives a country a scale from 0-1. Figure 6 shows how refugees did not impact the HDI over this period. Germany consistently scored high regardless of the number of refugees that entered the country.

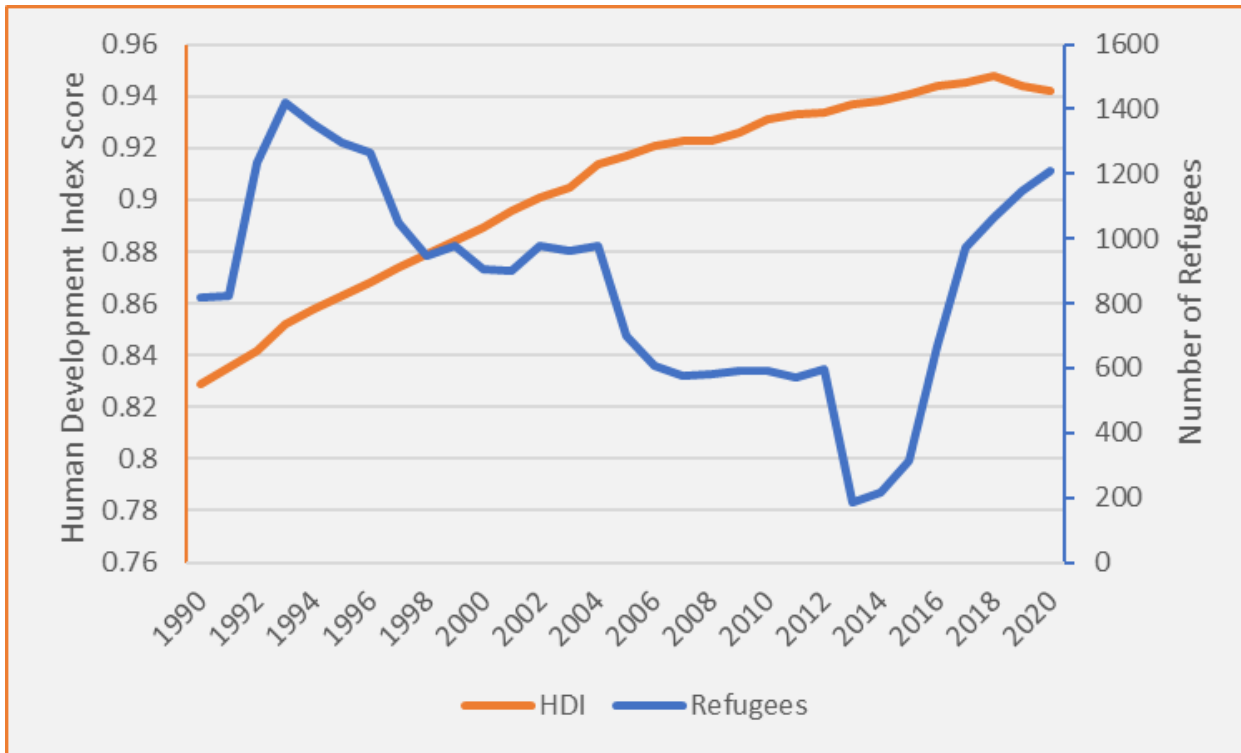


Figure 6: Germany HDI's vs. Number of Refugees in Germany

This could be attributed to Germany's integration of refugees, as according to Statista (2023), Germany spent \$2.3 billion on these efforts in 2021. Refugees are predicted to contribute to a 0.5% growth in G.D.P. over the next decade (Jarman, 2018). The money Germany spends on refugees promotes economic activity in refugee communities, and thus, Germany. Additionally, as mentioned earlier, refugees are willing to take low-demand jobs that others are unlikely to take. These refugees spend the money they make increasing economic growth, too. In conclusion, refugees have a negligible impact on the German economy as they comprise a small percentage of the population. Additionally, despite costing money, Germany's integration policy and the nature of refugees cancel each other out and have a negligible effect.

Limitations

This study has potential limitations. Firstly, the study only examines three countries. Different conclusions can be drawn when looking at a broader range of countries. An additional limitation is that while this study does its best to consider other factors, it is impossible to gauge how different factors like politics, policy, or natural disasters affect economic factors compared to refugees. For example, in random country X, where there is a spike in refugees and an earthquake, it is hard to gauge to what extent refugees affected the economy compared to the earthquake.

Conclusion

This study's results show no correlation between the number of refugees and economic factors. The host country's unemployment rate, G.D.P., G.D.P. Growth, and other factors appear to follow trends largely independent from the number of refugees. The leading cause of this is attributed to the fact that refugees make up a small percentage of the population. As a result, this small population will only have a small impact and will not outweigh other factors that affect the host country's economy. Even when this is not the case, governmental decisions and policies hold far more sway on the state of the economy than refugees do. A study done by J. Edward Taylor supports this idea, as it shows how governmental aid towards refugees leads to total economic growth, showing the importance of a government's role in this crisis. In the future, economic factors should not be considered when dealing with the refugee crisis. Instead, a government's policy must be judged.

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