MATCHING, REFUGEES AND GLOBAL WELFARE: DISCUSSION

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HCEO Conference on

Market Design Perspectives on Inequality

University of Chicago

August 6-7, 2016

What is the session about?

Two papers on migration/mobility:

➢ *"Crossing borders in search of health, welfare and safety" by Alvin ROTH, with 80 percent dedicated to global kidney exchange, 10 percent to international surrogacy, and 10 percent to refugees*

➢ *"Market design for refugees", by Will JONES, on matching mechanisms applied to refugee resettlement/relocation at various levels (international, regional, local)*

What I will talk about (1)

The intersection between the two papers, i.e. matching and refugees. Three reasons:

1. "Refugees are a natural application of matching" (Al's blog, July 2015)

2. "One of the most urgent global humanitarian challenges today, and one where market designers can contribute tremendously" (Will's presentation today)

3. "Feel free to base the discussion on your own work as much as you feel appropriate" (guidelines to discussants, HCEO conference 2016)

What I will talk about (2)

Let me add that:

➢ *The social value of market designers' time is indeed very high in the field of refugee matching, and yet very few actually work in the field; it seems the private incentives are not there…*

➢ *Personal anecdotal evidence -- two types of resistance (e.g., Toulouse Dec2015): reluctance to enter a new field before tenure; and lack of theoretical interest ("not essentially different from school choice")*

What I will talk about (3)

How can we change this? By...

➤*Appealing to the social and political conscience of the people in the room (e.g., AI?)*

➤*Outlining a number of dimensions for which the context of refugees, especially at the international level, is either essentially or at least sufficiently different from school choice*

What I will talk about (4)

Three issues. Differently from school choice:

➢*One side of the match (the country of destination) has an interest <u>not to be chosen.</u> Moreover this has to do with the public good nature of refugee protection (free-riding).*

➢*Matching for refugees entails substantial <u>secondary movements </u>(remigration), which represent important costs for refugees as well as for governments*

➢ *Matching for refugees is by nature a <u>screening exercise:</u> security screening, but also screening between "true refugees" and "economic migrants".*

Issue 1: Incentives not to be chosen

The risk with matching for refugees: race to the bottom in humanitarian standards, as one side (countries) has an incentive not to be chosen. This manifests itself in different ways:

1. *Refusing the quota system (Hungary and the "Visograd group")*

2. *Being cynical about not being attractive. "Refugees from the Middle East and Africa don't want to come to the Czech Republic because it is too cold" (Mr. Sobotka, Czech Prime Minister, June 2015).*

3. *Deterrence through bad treatment (long delays in processing application, bad material conditions, systematic deportation to places such as Nauru (Australia)*

Issue 1: Incentives not to be chosen

Solutions: quota system with…

1. *Realized: forced participation + overcompensation: easier at the sub-national (Central Governments can use carrots and sticks to get compliance from municipalities – Germany, Switzerland, England) than at the international level*

2. *In progress: EU example (relocation and resettlement program) -- country quotas based on a "fair distribution key" with sanctioning of free riding: 1,500€ per refugee in September 2015, 250,000€ in May 2016…*

3. *Proposal: Tradable Refugee-Admission Quotas (TRAQs) with matching (Fernandez-Huertas Moraga and Rapoport, JPubE2014, CESifoEconStudies2015)*

The proposal: TRAQs with matching

Think of it as a 3-stage rocket

➤*1st stage: allocation of "**initial quotas.**" We follow the EU distribution key: population, GDP, unemployment, past refugees.*

➤ *2nd stage: the "**matching mechanism,**" whereby refugees' preferences over destinations and destination countries' preferences over refugee types are taken into account. Agnostic as to which model should be applied*

➤*3rd stage: the "**tradable quotas system.**" Combining physical and financial solidarity (comparative advantage)*
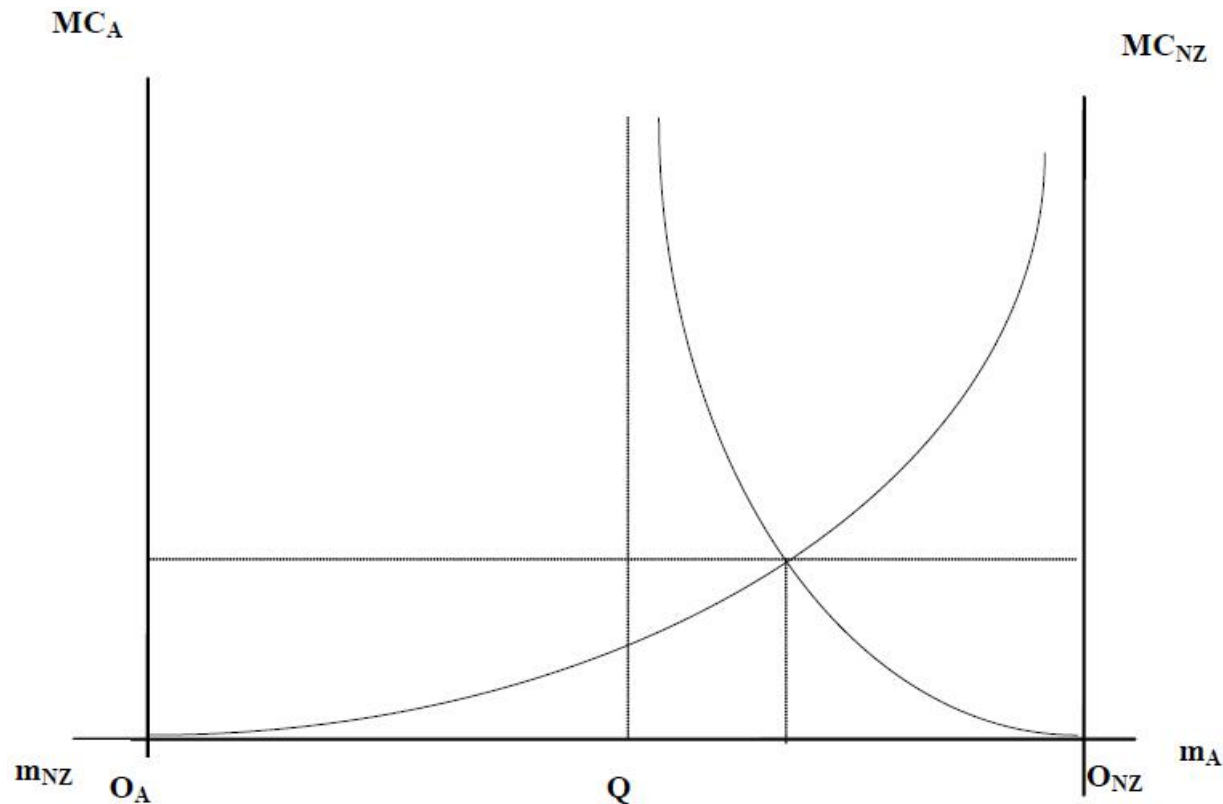
Note that the 3rd stage cannot work without the other two, and the 2nd cannot be implemented without having the 1st stage in place – hence the rocket metaphor.

TRAQs with matching

➤ *While we were first to propose to apply matching mechanisms to the refugee issue, <u>the innovation lies in the combination of the two tools:</u> each provides the "cure" to the "poison" of the other*

➤ *Risk with TRAQs: refugee dumping. Cure: matching guarantees that refugees would only go to countries they choose*

➤ *Risk with matching: race to the bottom in humanitarian standards. Cure: TRAQs includes a sanction mechanism whereby countries pay the market price for the unfilled part of their quota (incentive to become more attractive)*

TRAQs – a diagrammatic example

Efficiency of the Market Based Solution

TRAQs in Practice:
Computerized Continuous Double Auctions

- CCDA is a mechanism to match buyers and sellers of a particular good, and to determine the prices at which trades are executed.

- Countries place bids (buy orders) and asks (sell orders) simultaneously.

- Outstanding orders are maintained in an order book. The market price is determined by the set of orders in the order book.

- Countries may at any time buy or sell immediately at the market price. Trades are executed whenever the highest bid exceeds or is equal to the highest ask price.

- CCDA are often used for trading of equities and derivatives.

Conclusion

Overall, supplementing the quota system with both TRAQs and matching will:

➤ 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 (attractiveness).

However:

➤ is this a "repugnant" market? Is it politically feasible?

➤ Alternatives: pledges? Incentive auctions? Others?

Issue 2: Secondary movements

➢ *Differently from school choice, matching for refugees entails substantial secondary movement (remigration)*

➢ *This is due to the fact that refugees trade-off refugee status in their country of legal residence (resulting from an allocation with or without matching) with illegal status (with some prospect of amnesty/ legalization) in their preferred destination*

➢ *Matching reduces remigration compared to purely administrative allocations (in a way that needs to be empirically assessed) but does not eliminate it.*

Issue 2: Secondary movements

➤ *Problems on refugees' sides: could lead to misrepresentation (i.e., I will list Portugal second if my first choice is Spain because it is the closest to Spain)*

➤ *Problems on receiving countries' sides: minimizing remigration across countries (or within regions of a country) may be as important as the various "priorities" in designing/choosing matching models*

➤ *Different matching models (e.g., random serial dictatorship v. rank-minimizing algorithm) will result in different levels of remigration, which may make them more or less desirable for governments (ongoing work with Olivier Tercieux)*

Issue 3: Screening

➢*New screening issue: security (Al Roth's presentation)*

➢*Old screening problem: separating "true refugees" from "economic migrants abusing the asylum system" (e.g., Bubb and Kremer, 2011)*

➢*Here again, applying matching models mitigates the problem but does not eliminate it: those who rank a long list of potential acceptable destinations have a higher chance of eventually making it; but this information cannot be used directly for screening (would need to manipulation)*

➢*Again, different matching models will perform differently with respect to this type of screening (can be evaluated ex-post)*

General conclusion

➢ *Refugees are a natural application of matching*

➢ *Yet very little has been done in this first-order priority field*

➢ *Potential directions for theoretical innovation:*

1. *How to incentivize countries to be "chosen"? TRAQS, or something else?*

2. *How do different models perform in terms of secondary movements or in terms of screening?*

3. *Suggestions anyone?*