Immigration in a globalizing world

Riccardo Faini

(Università di Roma Tor Vergata, IZA and CEPR)

The conventional wisdom about immigration

- The net welfare effect of unskilled immigration is at best small
- Its distributional impact is however substantial
- Only skilled immigration has a clear positive welfare impact on receiving countries

The bias against unskilled migration

- A supposedly negative impact on wages and unemployment
- The lesser scope for redistributive policies
- The public finance impact
- A politically and socially divisive issue

Are there too many migrants?
(percentage of all answers)

Belgium	54.3
France	54.7
Germany	56.7
Italy	64.0
UK	51.3
USA (in 93)	54.5
USA (in 97)	48.0

The viewpoint of sending countries

- Restrictions on unskilled migration deprives sending countries from a powerful engine for growth and convergence
- The bias toward skill migration deprives the home country from its most skilled and talented people

The welfare impact in source countries

① The basic formula:

$$\Delta B/B = -(\alpha_L \, m^2 \, \varepsilon)/2$$

where :

B : welfare
α_L : labour share
ε: wage elasticity with respect to employment
m: population share of migrants

② Allowing for remittances :

$$\Delta B/B = -(\alpha_L \, m^2 \, \varepsilon)/2 + \beta \, m$$

Results:

- Welfare effects are small
- For plausible parameter values, $\Delta B < 0$ **if** $m > 0.43$

The brain drain

migration rates by educational attainments

Origin country	Secondary educ.	Tertiary educ.
Korea	3.3	14.9
Philippines	6.0	9.0
Ghana	0.7	25.7
Uganda	0.6	15.5
Dominican Rep.	30.5	14.7
Mexico	20.9	10.3

The revisionist view of brain drain

- Skilled workers are likely to earn more abroad and, hence, ceteris paribus, remit more
- The stronger incentive to invest in human capital may more than offset the loss of skilled workers
- Return migrants may bring home valuable skills that they have acquired abroad

Three basic issues

- Do skilled workers remit more?
  - They are likely to come from relatively wealthy families
  - Their propensity to remit may be lower
- Is the brain drain associated with greater education in the home country?
- Do remittances (and education) boost growth?
  - Remittances may be used unproductively and exacerbate moral hazard problems
  - Remittances may help overcome capital and insurance markets imperfections

Do skilled workers remit more? *a simple model*

- Household members belong to one of three groups:
  - R: “close” members that are reunited with the migrant
  - H: “close” members that live at home
  - D: “distant” members
- Migrant’s utility is

$$U(C_M, f_R) + f_R\, V^C(C_R) + (1-f_R)\, V^C(C_H) + V^D(C_D)$$

where:

  - C_i : consumption of group i
  - f_R : percentage of close members that live with the migrant

The key assumptions

- $U_f > 0$: migrants derive a positive utility from family reunification
- $V^C(C) > V^D(C)$ and $V'^C(C) > V'^D(C)$: the level and the marginal value of the migrant's utility are relatively larger for the "close" family members
- Budget constraints:
  - $C_M = w - (f_R R_R + (1-f_R) R_H + R_D) - \theta f_R$
  - $C_i = Y_i + R_i \qquad i = R, H, D$

The main results

- Remittances to “close” family members will be generally higher than those to “distant” family members
- If w is up, and “reunification” is a normal good, then R_i and f_R will increase
- Hence, there will be two effects on total “true” remittances:
  - The wage effect
  - The reunification effect
- The net effect may well be negative. Only empirical analysis can tell.

Let turn to the empirical section: the data

- Remittance data come from the IMF: they include workers' remittances, compensation of employees, and capital transfers
- Migration data come from Docquier and Marfouk who extend the work of Carrington and Detragiache

The estimating equation

- Remittances of group i are:

$$R_i = \alpha_i w_i - \beta_i y_i \qquad i=S,U$$

where:

w_i = migrant's wage

y_i = household income

- Aggregate remittances are:

$$R/P = \alpha_U w_U M/P + (\alpha_S w_S - \alpha_U w_U) m_S/P$$

$$- \beta_U p_U y_U/Y \; m_U/p_U \; Y/P - \beta_S \; p_S y_S/Y \; m_S/p_S \; Y/P$$

The results

	(1)	(2)	(3)	(4)
	R/P	R/P	R/P	ln(R/P)
M/P	3.7 (2.2)	4.3 (2.4)	3.8 (2.3)	0.36 (8.20)
m_S/P	-1.96 (0.22)	-0.9 (0.1)	-1.7 (0.2)	-0.09 (1.1)
m_U/p_U Y/P	0.15 (2.62)	0.17 (2.8)	0.13 (2.1)	--
m_S/p_S Y/P	-0.017 (3.5)	-0.025 (3.7)	-0.014(1.5)	--
m_U/p_U ln(Y/P)	--	--	--	-2.49 (4.2)
m_S/p_S ln(Y/P)	--	--	--	-0.77 (6.3)
t M/P	1.2 (0.8)	1.1 (0.7)	3.6 (0.4)	0.02 (1.19)
R^2	0.63	0.62	0.63	0.45
NOB	188	188	134	134

Legends

R: total remittances, M: migration stock, P: home country's population,

m_S (m_U) : skilled (unskilled) migrants, p_S (p_U): home country's skilled (unskilled) population, Y: GDP, t: time effect.

The impact of a 10% increase in skilled migration on the GDP share of remittances

Caribbean		SubSaharan Africa	
Antigua	-1.38	Cote d'Ivoire	-0.26
Barbados	-0.89	Guinea Bissau	-0.14
Dominica	-1.45	Lesotho	-2.86
Grenada	-1.41	Mali	-0.47
Jamaica	-4.77	Mauritania	-0.04
		Mozambique	-0.17
South America		Nigeria	-0.65
		Sudan	-0.63
Colombia	-0.36	Swaziland	-1.02
Ecuador	-1.67	Tanzania	-0.03
Paraguay	-0.59	Uganda	-0.61
Peru	-0.29		
Venezuela	-0.06	Asia	
		Bangladesh	-0.55
Central America		Malaysia	-0.11
		Mongolia	-0.24
Belize	-0.86	Nepal	-0.23
El Salvador	-3.18	Philippines	-1.00
Guatemala	-0.73		
Honduras	-1.49	Western Asia	
Mexico	-0.62		
		Georgia	-0.96
Northern Africa		Turkey	-0.53
		Ukraine	-0.03
Egypt	-0.72		
Morocco	-1.53		
Tunisia	-0.92		

Source: own calculations based on column 4 of Table 1

The empirics of the “brain gain”

- Beine et al. (2001, 2003)
- Skilled emigration rates as a measure of the probability to move abroad
- How to measure investment in education?
  - Changes in the average number of years in education?
  - Enrolment rates?
- Should we distinguish between secondary and tertiary migrants?

Returns to education and the brain drain

Dependent variable	Secondary school enrolment	Tertiary school enrolment
Constant	-122.9 (-5.82)	-60.9 (-11.72)
Secondary school migration rate	-0.18 (1.04)	- -
Tertiary education migration rate	0.37 (2.02)	-0.11 (-1.79)
Income per capita	21.5 (7.32)	9.75 (5.90)
NOB	45	51

The impact of remittances (and education) on growth

- Theory does not provide a clear cut answer as to the impact of remittances on growth
- Empirical evidence is very divided as to the impact of education on growth
- Empirical analysis:
  - Decadal growth rates
  - Human and physical capital indicators
  - Policy indicators

Growth and remittances

Dep. Var.: growth in per capita GNP	(1)	(2)
ln Y_{pc} (t-1)	-0.69 (1.97)	-0.77 (2.25)
Secondary schooling	0.019 (1.72)	0.024 (2.16)
Tertiary schooling	0.019*	0.024*
Phone	0.0004 (0.16)	0.0005 (0.02)
BMP	-1.17 (2.65)	-1.24 (2.88)
Policy	0.90 (4.9)	0.78 (4.13)
Remittances	0.23 (2.25)	--
Remittances x Policy	--	0.14 (3.22)
R^2	0.85	0.86
S.E.	0.96	0.93
NOB	118	118

The growth effect of the brain drain

(a 10 point increase in the rate of skilled migration)

	(a)	(b)
The remittance effect (c)	-0.23	-0.23
The educational effect	0.05	-0.03
The aggregate effect	-0.18	-0.26

(a) allowing for a significant effect of migration probabilities on (net of migration) educational achievements (columns 1 and 2 of table 1) and the positive effect of educational achievements on growth

(b) setting the aggregate effect of migration probabilities on educational achievements to zero

(c) The effect of the brain drain on remittances is estimated to be negative and equal to 0.1 (a 10 point increase in the rate of skilled migration reduces the remittances to GDP ratio by 1.0 percent of GDP). In turn, the reduction in remittances depresses GDP growth by 1 x 0.23

Conclusions

- The brain drain is quantitatively large
- There is limited evidence that favoring skilled immigrants raises the return to education
- Skilled migration is not associated with a larger flow of remittances
- Remittances seem to have a positive impact on growth, particularly in countries with good policies
- Industrial countries policies that favour skilled immigration are at risk of penalizing growth prospects in developing countries.
- Somewhat perversely, the negative effect of the brain drain will be more strongly felt in those sending countries with a sound policy stance.

A truly global economy?

- Tight restrictions on unskilled migration
- Unfettered capital mobility
- A growing bias in favor of skilled migration

A more symmetric approach to global policy-making ?

- A multilateral framework for labor mobility
- Adding labor standards to the existing set of codes

Strengthening the fourth pillar: *the International Labor Office*

- Broader mandate, including a multilateral framework for migration
- Expanded surveillance role
- Additional resources