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Migration, Remittances and Growth*

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Introduction

In the nineteenth century, migration flows played a key role in fostering income convergence between Europe and the United States (O’Rourke et al., 1996). In the present globalization episode, however, the role of migration is much more limited (Faini et al., 1999). This is not because of lack of economic incentives. If anything, income differentials between sending and receiving countries are significantly larger than they were less than a century ago (Pritchett, 1997).

Restrictive immigration policies in the traditional receiving countries account largely for the more marginal role of migratory flows. Since 1974, immigration policies, particularly in Europe, have taken an increasingly restrictive stance, seeking both to discourage further immigration and to favour return migration.

Since the 1990s migration policies have taken a new turn. In response to the growing shortages of skilled labour, immigration policies have been geared increasingly to favouring the entry of skilled workers, while continuing to penalize unskilled flows.

Such trends raise major concerns among sending countries, on at least two counts. First, sending countries will be restricted substantially in their ability to rely on unskilled migration as an engine of growth and convergence. Second, the bias toward skilled flows risks exacerbating the brain drain and could well deprive such countries of their most skilled and talented people. On both counts, it is argued, growth prospects in emigration countries will be curtailed.

The link between migration and growth in sending countries is, however, quite complex. First, sustained migratory flows may be associated with an equally large flow of remittances that may help relieve the foreign exchange constraint in the home country. Second, migrants may return home after having acquired a set of productive skills, with a beneficial impact on the growth prospects of their home country. Finally, the policy bias in host
countries toward skilled flows may not necessarily penalize sending countries. As argued most recently by Stark et al. (1997, 1998), the incentive to acquire skills may be strengthened by the prospect of being able to migrate. Even in the presence of a brain drain, therefore, the average education level of those left behind in the home country may be higher than it otherwise might.

Accordingly, in this ‘revisionist’ approach to the analysis of the brain drain, skilled migration may turn into a ‘brain gain’ even if no account is taken of the potentially positive effects on the home country of remittances and return migration. Allowing for such factors would then further strengthen the case of the revisionist approach, to the extent, for example, that skilled migrants, because of their higher earnings, are likely to generate a larger flow of remittances.

As at the time of writing, however, the empirical evidence in support of the supposedly positive effects of skilled migration on the home country is, at best, limited. Moreover, even the theoretical predictions of the revisionist approach are not unambiguous. First, skilled migrants may have looser links with their home country – for example, because they are more likely to take their family to the host country and may therefore remit less rather than more. Second, prospective migrants may want to strengthen their chances of admission to the host country by pursuing their graduate studies there. The most talented individuals would then have an incentive to migrate at a relatively early stage in their school career, thereby definitely reducing the average enrolment ratio in the home country’s educational system. Contrary to the revisionist approach, then, a higher probability for skilled workers to migrate may be associated with a decline in the home country’s educational achievements. Moreover, as shown in the early contribution of Bhagwati and Hamada (1974), the brain drain may interact with domestic distortions so as to reduce welfare in the home country unambiguously. Finally, even the impact of return migration on home-country welfare may be less favourable than generally presumed (Constant and Massey, 2002).

The purpose of this chapter is to take a further look at the theoretical underpinnings and empirical evidence around the link between skilled migration, education and remittances. We find little support for the revisionist approach. On the contrary, our results suggest that the concerns voiced in sending countries about the economic impact of skilled migration are warranted. First, a higher skilled content of migration is found to be associated with a lower flow of remittances. As noted earlier, we interpret this result as indicating that skilled migrants tend to loosen their links with their home country. Second, we find little evidence suggesting that raising the skill composition of migration has a positive effect on the educational achievements in the home country. In contrast, the tertiary enrolment ratio in sending countries is associated negatively with the skilled content of migration.

The remainder of this chapter is organized as follows. In the next section, we present the simple static welfare computation of outward migration. We