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Migration  
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# Well-being and Social Policy

## INTRODUCTION

THE EFFECT EMIGRATION ON THE LABOR MARKET  
OUTCOMES OF THE SENDER HOUSEHOLD: A  
LONGITUDINAL APPROACH USING DATA FROM  
NICARAGUA

IS INTERNATIONAL MIGRATION A SUBSTITUTE  
FOR SOCIAL SECURITY?

THE TIME PATTERN OF REMITTANCES: EVIDENCE  
FROM MEXICAN MIGRANTS

WORKERS' REMITTANCES AND CURRENCY  
CRISES

THE EFFECTS OF MIGRATION ON SENDING  
COUNTRIES: A COMPARISON OF MEXICO AND  
TURKEY

REVIEW OF INTERNATIONAL MIGRATION,  
REMITTANCES, AND THE BRAIN DRAIN, EDITED BY  
ÇAGLAR ÖZDEN AND MAURICE SCHIFF



# REVIEW OF INTERNATIONAL MIGRATION, REMITTANCES, AND THE BRAIN DRAIN, EDITED BY ÇAGLAR ÖZDEN AND MAURICE SCHIFF

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**D**uring the last couple of years, international migration has attracted a great deal of attention in the development community. The convening of the Global Commission on International Migration followed by a UN High Level Dialogue on International Migration and Development, scheduled for September 2006, are reflections of this surge in interest. Until quite recently, the World Bank exhibited only peripheral interest in migration, either internally or internationally. This has changed, as witnessed by the release of Global Economic Prospects 2006 and the initiation, by the Development and Economics Research Group in the Bank, of their International Migration and Development Program. The volume edited by Özden and Schiff collects together the first set of studies conducted under this new research program.

As the volume title suggests, three of the studies deal with the effects of remittances on incomes and measures of well-being, four address various aspects of highly skilled migration, while the remaining paper examines the determinants of migration from rural Mexico to the US. Each of these is certainly topical: the rise in reported global remittance flows has been a major spur to the recent surge in interest in migration, especially in Latin America; global movements of the highly skilled escalated rapidly in the 1990s leaving at least some countries very concerned, notably in Sub-Saharan Africa; and the current debate over US immigration reform focuses almost entirely upon the Mexican case.

In each of the three papers on remittances, fresh data and perspectives are brought to bear. Richard Adams draws on a 2000 household survey on Guatemala to look at the effects of remittances upon poverty and investment. As Adams notes, in the analysis of poverty impacts it is critical to define the counterfactual carefully. To look only at current, non-remittance income receipts may be misleading. If the migrant had not left, this income presumably would have differed; if the migrant left but did not remit, labor effort by those left at home might well have differed. Relatively few studies attempt to make allowance for these potentially critical components. Adams simulates household incomes for a no-migration, no-remittance case. The results indicate that the head-count ratio of poverty in Guatemala is hardly altered by the joint process of migration and remittances. However the depth of poverty, among those in poverty, is substantially reduced. The impact of remittances upon investments has also been commonly misrepresented; whether remittance

recipients choose to invest or to enjoy their receipts more immediately is a private matter. One might wish that more investments were occurring in an economy, yet remittance recipients ought not to be singled out to finance these additional investments. Nonetheless, it is interesting that Adams finds Guatemalan households investing a large part of their remittances, particularly in education. Apparently, as Adams notes, these remittances are treated as potentially transitory in nature, so families do not consume on the presumption of continued future inflows.

The paper by Dean Yang and Claudia Martinez is an interesting extension of Yang's earlier work. (Yang, 2004). The latter examines the impacts of the 1997-98 exchange rate shocks on migrant families in the Philippines. The paper in this volume looks at these shock effects on poverty, both among migrant families and among these migrants' neighbors. The conclusion is that a nominal appreciation of the migrant's host country currency against the Philippine Peso increases remittances, and significantly reduces at least some poverty indicators both for migrant families and their neighbors. Since regional inequality remains largely unaltered, it seems the effect on neighbors may come from remittances altering the level of economic activity in the region. Whether the nominal, as opposed to the real exchange rate, is the appropriate measure might be disputed. (Faini, 1994). Nonetheless, this is an important contribution: the expansionary effects of remittances are often asserted (either through multiplier or investment effects), yet we possess limited evidence on the reality of these effects. Together with Adams's paper this also reinforces a growing body of evidence on the poverty-reducing effects of remittances. On the whole, it seems highly improbable that additional remittance transfers could actually increase absolute poverty; nonetheless the magnitude of reduction among migrant families and certainly the extent of indirect poverty reduction among non-migrants, as examined by Yang and Martinez, is of concern. Whether migrant departure combined with remittances will reduce poverty, addressed by Adams, is far less apparent. It is reassuring to see that both studies find diminished measures of poverty.

The paper by David McKenzie extends this theme of the interaction between remittances and migration in important ways. In particular, McKenzie's paper is a summary of three of his prior papers, all looking at migration from rural Mexico to the US, some written with co-authors. Each of these papers focuses on the fact that migrant departure impacts those left behind, beyond any pure income effects from remittances. In consequence, regressing family outcomes on remittances, omitting migration, generates biased impressions of the effect of remittances in the many studies of this ilk. *Inter alia*, McKenzie shows that children of migrant families are less likely to be breast-fed and to receive adequate vaccinations, though migrant mothers return with better health knowledge and this spills over to other women in the village. Moreover, although remittances may make education more affordable, migration from rural Mexico diminishes educational attainment of children, either because of parental absence or because of the low returns available on Mexican education in the US.

This last result provides an interesting bridge to the set of four papers on highly skilled migration. One of these papers has already attracted a great deal of attention and was widely cited prior to publication, namely the study by Frédéric Docquier and Abdeslam Marfouk which, together with the work of Dumont and Lemaître (2004), has considerably enriched the data base on migrant flows to the OECD countries by skill level.

Several authors have postulated that emigration of highly skilled people may induce so much educational expansion at home as to leave the country with a more highly educated home population and faster growth in consequence. This hypothesis forms one element in a potential

'brain gain' from emigration of the highly skilled. (Technology transfers, facilitation of international trade, and expanded financial inflows form the other chief potential components). Schiff presents a series of theoretical doubts about the positive growth effects from induced educational expansion hypothesis. These doubts stem from such issues as the declining innate abilities of those induced into further education, the public costs of any expansion, the role of risk aversion deterring a gamble on education for emigration, and the realities of immigration controls limiting the ability to emigrate. Perhaps most importantly, Schiff points out that the hypothesis of brain-gain through induced education does not appear to be supported in the mounting empirical evidence. As Schiff concludes, the arguments in his paper support the traditional concerns with the cost of a brain drain. It might be pointed out, however, that these costs are not self-evident, especially in the very few contexts in which the costs of training are privately born, but more generally where the highly skilled workers are poorly deployed at home. Hugo (1996) calls the latter a case of 'brain overflow'.

Çağlar Özden adds 'brain waste' to this growing lexicon, referring to highly educated immigrants who perform relatively low-skill occupations in their host country. Specifically Özden finds that highly educated migrants in the US from Latin America and Eastern Europe are less likely to be in skilled professions than are their counterparts from Asia and from the industrialized nations. This study offers a different perspective than the more conventional analyses of earnings by education level and country of origin. Both approaches are potentially subject to errors in measurement when educational achievement abroad is self-reported in surveys, and to omitted variable bias when the quality of education varies so considerably across countries. It is therefore interesting to see that Özden explores the impact from correlates of educational quality at origin and finds that the pattern persists. The results in this study also suggest that the likelihood of being in a skilled profession in the US is lower from countries that send a higher proportion of their educated migrants to other industrialized states, which is interpreted as diluting the pool. It is interesting to speculate on what these results tell us about the difficulties of applying a meaningful point system for immigration, such as in Canada, when the apparent meaning of education varies so widely. They also raise doubts about simply measuring the brain drain in terms of numbers of highly qualified emigrants.

The paper by Gnanaraj Chellaraj, Keith Maskus and Aaditya Mattoo offers some intriguing insights. Aggregate, annual, US patent applications, university patent grants, and other patent grants awarded are shown to be correlated with the lagged inflow of foreign students and the cumulative stock of "skilled" migrants. In essence this is a production function of research output. Any such production function is always difficult to estimate, and one could debate the direction of causality, given that inputs and outputs are simultaneously determined. The fact that lagged values are used certainly helps, though the simultaneity problem may not be eliminated entirely. Nonetheless the authors' conclusion that skilled immigration is a substantial source of research, and presumably therefore technical progress, in the US has important policy implications and should spur further analysis into these issues. For instance, it would be particularly important also to understand the extent to which circular flow of scientists and engineers generates global diffusion of technologies.

Altogether this volume offers a range of evidence and arguments that will enrich the ongoing, heated and often misinformed policy debates on international migration. It is certainly a very promising beginning to the World Bank's international migration research agenda.

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