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Migration and Development: More Opportunities than Risks

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Migration is a natural phenomenon. People have always left their homeland in search of a better live in new environments. Today, international migration flows are primarily driven by the tremendous wage differentials between countries. About 215 million people currently live outside their country of birth. In 2010 alone, they sent remittances worth more than US$ 300 billion to their families in their countries of origin. In recent years, international migration and in particular the volume of remittances have grown rapidly. Between 1990 and 2010, the number of migrants increased by more than forty percent while the volume of remittances even increased tenfold. This trend is expected to continue in the future as migratory pressure remains exceptionally high in a world with unequally distributed economic opportunities, increasing availability of information and unprecedented travel opportunities. According to surveys conducted by the Gallup World Poll, more than forty percent of the respondents in the poorest developing countries would emigrate if they were given the chance to do so (Torres and Pelham, 2008).

Against this background, an increasingly controversial debate about the impact of migration on development in migrants' home countries has emerged in recent years. On the one hand, remittances, which for many countries and families represent an important source of income, are considered an opportunity for development. This is especially true when remittances benefit the broader population and are used for productive purposes. On the other hand, the emigration of skilled professionals (*brain drain*) is considered a risk for the development prospects of the countries of origin, as it may imply a loss of scarce human capital.

We argue that this view overemphasizes the risks of migration at the expense of the opportunities migration holds for economic development. First, the debate revolves around the effects of migration on countries of origin and destination thereby entirely ignoring the fact that the migrants themselves clearly benefit from migration. Labor migrant workers, who constitute the great majority of all migrants, can often multiply their income by crossing a border. No development intervention in the countries of origin can promise gains of even approximately the same size. Second, remittances have important macroeconomic effects that benefit all strata of the population and not only the families with migrants. Third, so far the emigration of skilled workers has not been shown to have negative effects of on development. On the contrary, new studies suggest that diasporas can foster development in countries of origin.

In the following, we elaborate in more detail on these three reasons for optimism and conclude with some policy recommendations.

Migration as a program to promote the development of people rather than places

Development is commonly understood as the sustainable improvement of living conditions in monetary and non-monetary dimensions. First and foremost, development is hence about raising the welfare of people and not of places such as nation states. Traditionally, however, development cooperation between donor and recipient countries has taken the perspective of the nation state. It is concerned with the development of the recipient country, i.e. the development of people *within* a clearly defined territory. A place-centered approach of development inevitable leads to the exclusion of migrants when evaluating the development impact of migration, precisely because they have left the territory under consideration. This view is incompatible with a people-centered development agenda. Migrants constitute exactly the group whose welfare is increasing due to migration. If we are interested in improving the living conditions of people *from* a particular country, it should not matter whether these people experience such improvements in their country of origin or elsewhere. From this perspective, migration is an integral part of development and may be compared with development interventions in the country of origin in terms of its contribution to poverty reduction and growth.

Migrants can typically realize huge monetary welfare gains through migration. Clemens, Montenegro, and Pritchett (2008) show that a 35-years-old worker from a developing country with a medium education level can multiply his annual income only by migrating to the United States. The expected income gains vary by country of origin. E.g., a Bangladeshi or Boliviano would quadruple his income in the United States, a Nigerian would even experience a sevenfold rise in income. For the median country the authors estimate an income increase of more than 300 percent. These estimates are already conservative, taking into account the selection of migrants and the differences in price levels between the United States and the countries of origin.

There is no known development policy that could increase the income of a person *in* the country of origin by as much as migration. Clemens, Montenegro, and Pritchett (2008) calculate that lifelong access to micro credit would increase the income of a Bangladeshi approximately as much as four weeks of work in the United States. For a Bolivian, eleven weeks of work in the United States are approximately equivalent to the increase of lifelong earnings he can expect from one additional year of education.

Of course, these monetary gains have to be weighed against the non-monetary welfare effects of emigration, which are likely to be less favorable: migrants leave their home country and have to integrate into new societies; sometimes they also have to separate from their children and partners for a long time. Nevertheless, it can be safely assumed that migrants benefit in total as they would not emigrate otherwise.

It is certainly desirable to improve living conditions in the home countries, so that potential emigration would not be pushed abroad in search of a better life. However, global development disparities are so large that even in the best of all circumstances committed policymakers in developing countries will not succeed in creating such conditions in the foreseeable future. It is hence only understandable that so many people consider migration to a country with a high standard of living as a promising way out of poverty. We should provide them with enough opportunities for doing so. After all, nobody can choose his place of birth.

Not only families with migrants abroad benefit from remittances

By going abroad migrants do not only help themselves. The financial contributions of migrants have become a significant source of income for many migrant-sending countries in recent years. The World Bank estimates the amount of global remittances in 2010 to be US$ 325 billion and expects an annual growth of up to eight percent in the coming years. In global terms, remittances are nearly three times as high as official development assistance and almost as high as foreign direct investment (World Bank, 2011). The potential relevance of remittances for development can best be illustrated by comparing them with the gross national product of recipient countries. In small countries with high emigration rates such as Tajikistan, Tonga or Lesotho remittances make up more than a quarter of the gross national product. But even in relatively large migrant-sending countries such as Bangladesh or the Philippines, remittances account for more than ten percent of the gross national product.

Unlike official development assistance, remittances are received directly by families. While the allocation of public funds is subject to political processes and often associated with high transaction costs, remittances can be used directly by the recipient households for the purposes that benefit them most. Households are faster, more efficient and often more effective than the state in identifying the most beneficial uses of their resources. In addition, remittances are not only used for consumption, but often also help finance education or health expenditures. The income from abroad allows families to achieve modest standards of living or at least to escape the most severe forms of poverty.

Still, it is often argued that remittances may have a limited impact on development, as they benefit only a small part of the population, increase inequality and are not used for productive investments. This argument is shortsighted. First, households that have no members abroad also benefit from migration. It is true that the direct income gains primarily accrue to recipient households. However, remittances that exceed a certain threshold generate significant multiplier effects that extend to the entire economy of the recipient country. In particular, domestic demand is reinforced by remittances. Apart from the private sector, remittances also benefit the government through increased tax revenue (e.g., from value added taxes or import duties), providing it with additional means to finance development policies. Furthermore, emigration decreases local labor supply, thereby increasing domestic wages of remaining workers. In sum, the positive income effects of migration in the country of origin reach far beyond the direct beneficiaries of remittances.

Second, the extent to which emigration and the resulting flow of remittances raises economic inequality in countries of origin primarily depends on the design of immigration policies of the country of destination. The current incidence of emigration reflects restrictive immigration policies that clearly favor high-skilled workers over low-skilled workers. In order to make the impact of migration more pro-poor, poor people from developing countries have to be given more opportunities to work in countries with higher wages. In addition, it has to be noted that even under the current restrictions migration reduces global inequality, i.e. inequality *between* countries.

Third, households cannot reasonably be expected to invest their income from abroad. On the one hand, remittances are private funds that households can allocate freely according to their own preferences. On the other hand, not every recipient of remittances is an entrepreneur, in particular if one considers that arguably the most entrepreneurial member of the household is now abroad precisely because of the lack of economic opportunities at home.

The brain drain argument ignores the dynamic effects of migration

Intuitively, emigration of highly skilled people may decrease the development prospects of a country. This is especially true for professionals, whose human capital is scarce and generates positive externalities for the rest of the population. Physicians are a classical example. Their emigration may compromise the health care available to the remaining population. However, despite the plausibility of the brain drain argument, studies have failed so far to provide causal evidence that emigration of skilled professionals has a negative impact on development.

The lack of evidence does of course not mean that there are no such negative effects. Rather they seem to be so small that they are masked by other factors. For example, health systems of many developing countries suffer from severe structural deficiencies (lack of medicines and technical equipment, lack of medical personnel, corruption). As a consequence, the emigration of physicians possibly results in only a minor additional deterioration of the health care system. One may even consider their emigration as a symptom and not necessarily a cause of poorly functioning health systems.

In addition, the brain drain theory assumes a given stock of human capital. From this static perspective, emigration of highly skilled professionals inevitably implies a reduction of a country's remaining human capital stock. By contrast, the dynamic theory of the brain gain argues that the prospect of emigration may lead to increased investment in education if human capital earns a higher return in the destination country than at home. Since not all people who plan to emigrate will actually do so, migration may ultimately lead to an increase in the human capital stock in the country of origin. Empirical studies show that the brain gain effect indeed exists and in some countries more than compensates the emigration of skilled workers (Docquier and Rapoport, forthcoming).

Finally, recent studies suggest that emigrants are not simply ”lost“ for their countries of origin. Rather, diasporas foster the development of their home countries in various ways. On the one hand, they promote the integration of their countries into the global economy by contributing to increased trade flows and foreign direct investment. On the other hand, there are numerous non-profit diaspora organizations working directly for the development of their home country through the transfer of money or expertise. Generally, it seems that countries of origin are still far from fully exploiting the development potential of diasporas.

Realizing the development potential of migration

Migration is a natural phenomenon that can be suppressed only by inhumane measures. At the same time, migration provides vast development opportunities, in particular for the migrants themselves but also for their countries of origin. This is why the debate on migration and development should start to focus on how the development dividend of migration can be maximized. The following policy recommendations follow from our discussion.

A people-centered development agenda requires immigration policies to become more development-friendly. In particular, poor and low-skilled workers from developing countries should be provided with more legal migration opportunities. One option is to establish guest worker programs that provide temporary work and residence permits. The temporary nature of these permits would give more people the opportunity to work in a country with high wages, ensuring that broader segments of the populations in countries of origin benefit from migration. At the same time, political resistance to immigration would probably be lower for temporary residence permits than for immigration that entails a permanent right of residence.

To boost the use of remittances for productive investments, migrant-sending countries should improve their investment climate and the financial sector. In addition, households receiving remittances from abroad should be provided with incentives to save at least a portion of their income within the formal financial sector. Possible measures include the strengthening of financial literacy or the introduction of innovative and trusted savings products. The financial sector would then allow for a more efficient allocation of the remittances by providing capital to the individuals or enterprises with the highest investment potential.

Both countries of origin and international development cooperation bodies should engage diasporas more systematically in the development of their home countries. One might, for example, think of establishing a social investment fund with funds from the government and a consortium of donors matching the contributions of migrants to finance community projects in the country of origin. If the diaspora is sufficiently large, these and other activities could be initiated and coordinated through an independent institution, which would act as a link between the home country and the diaspora. ■

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