

Session 11

Part III: Impact and Significance for Development: Poverty, Inequality and Brain Drain

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Guest Lecturer: Richard Adams, World Bank

Course Lecture

Brain Drain, Gain and Circulation

1. Movement of high-skilled labor has a number of effects on both home and host countries.
 - a. Home country living standards are undermined.
 - b. Remittances sourced from migrants are only partial compensation for the negative impacts of brain drain.
 - c. We live in a world with a policy-driven global competition for skilled talent. Governments are reaching for new ways to address this loss.
 - d. Efforts to include diaspora in development. These efforts have met with limited success.
 - e. Efforts of diaspora are hard to mobilize.
2. Geographic determinants
 - a. Highest rates of outward migration of high-skilled labor are from South to North.
 - b. Largest stocks are from: Europe, South and East Asia and Central America and Mexico.
 - c. Destinations: 50% to US; 20% to Canada and Australia; 15% to EU3 (UK, France and Germany).
 - d. In OECD countries, from 1990–2000 there has been a doubling of migrants with tertiary education, compared to only 50% increase in other educational fields.
 - e. Lower and upper middle income countries have been the largest losers of educated migrants.
3. Drivers of skilled migration.
 - a. Push factors
 - i. Low private return on educational investment in home countries. Workers not rewarded for the public return, or positive externalities, of their work. (e.g. teachers or nurses)
 - ii. Poor investment climate at home.
 - iii. Inability to absorb skilled/trained workers.
 - b. Pull factors
 - i. This is very important. There have been shifts in developed country immigration policies that have strongly favored educated migrants, making it very attractive for these migrants to leave their home countries and resettle in the developed world.
 1. Australia since mid-1980s has selectively admitted skilled workers.

2. November 1991 New Zealand followed suit, using a points system that rewards academic achievement and certain professional skills.
3. Canada has a similar policy – 58% of total immigration in 1997 consisted of 50,000 professionals plus 75,000 family members.
4. US Immigration Act of 1990 and American Competitiveness and Work Force Improvement Act of 1998 – emphasis on high skilled workers.

Economic vs. Social/political impacts

1. Host Country Impacts

- a. Difficult to analyze because of data problems and measurement problems of impacts.
- b. Generally speaking, migrant households earn more money when a member migrates.
- c. There are a number of beneficial externalities that are very difficult to quantify.
- d. High skilled migrants may be filling roles that domestic workers cannot fill.
 - i. Examples would include Indian software engineers in Silicon Valley. Filipino nurses in US and Middle East. South Asian doctors in parts of the rural US, underserved areas.
 - ii. Developed countries' aging population may increase demand for certain services.
- e. There may be negative impacts as well.
 - i. High skilled migrants may compete with natives with similar skills.
 - ii. Competition may depress wages in a particular industry.

2. Home Country Impacts

- a. Unemployment may diminish in the home country.
- b. Undermines growth prospects.
- c. Some impacts difficult to quantify.
 - i. lack of senior cadre of professionals
 - ii. difficulty in training and mentoring
 - iii. limited opportunities for exchange
 - iv. difficult to achieve economies of scale
 - v. society loses return on its own investment in public education
 - vi. higher price for technical services
 - vii. certain sectors suffer, like health
- d. What is lost with high-skilled migration?
 - i. Many positive externalities associated with education lost with brain drain.
 - ii. improvements in governance
 - iii. elevated discourse on public issues
 - iv. advocacy for higher education

- e. Examples
 - i. In 2001, 12% of doctors trained in India lived in the UK
 - ii. Ethiopia lost 50% of pathology graduates from 1984-1996
 - iii. Pakistan, South Africa lose 50% of medical school graduates
- 3. Managing the Problem. There are several broad approaches to manage problems:
 - a. Control – most difficult, easiest to evade
 - b. Immigration policies – decision-making of receiving governments, codes of practice
 - i. Some visas require holders to return to their home countries for specific periods of time before returning to the developed country.
 - ii. Difficult for governments to make codes of behavior binding on private sector
 - c. Compensation – taxation, subsidies from receiving governments
 - i. Bhagwati has suggested a tax departing migrants, but this is very difficult to administer.
 - ii. Developed countries may subsidize or contribute assistance to countries from which they are gaining high skilled migrants. Bilateral partnerships have developed.
 - d. New Channels – academic cooperation programs, investments in research
 - i. There have been programs attempting to guide private sector in hiring practices to regulate cream-skimming in developing countries.
 - ii. Short-term exchange programs have met with limited success.
 - iii. Provide resources to researcher in country, joint programs with developed country research institutions

Guest Lecturer: Richard Adams, World Bank

1. Beginnings of Richard Adams interest in migration and remittances.
 - a. Academic research in Egypt and government involvement poverty.
 - b. Late 1970's saw high migration to oil countries of Saudi and Iraq. He saw remittances improving lives of people in rural Egypt.
 - c. Developed household survey and conducted it in Egypt in 1986.
 - i. Rates of migration were very high.
 - ii. Low skill levels.
 - iii. Most were male.
 - iv. Most were going to Iraq. There was high labor demand and high wages.
 - v. When remittances were included in household income, poverty fell by about 10%.
 1. Housing was a large investment.
 2. Agricultural land expansion.
 - d. Later he began working in Pakistan. Question: how was remittance money spent? Published a paper in 1998. The point was to see if remittances were being used in development increasing activities.
 - i. Many people believe all money goes to consumption.
 - ii. When the Pakistan was analyzed they found land investment was the key investment.
 - iii. No investment in education or other human capital. Maybe rates of return to education were too low.
2. World Bank – Richard Adams began working at the Bank in 1998.
 - a. How do we use micro-level household budget surveys to assess impact of remittances?
 - b. Attempting to get Morocco and Ghana household remittance surveys in action.
 - i. These two countries represent areas about which very little is known.
 - c. Most surveys that have been done to date do not touch on remittances or migration. When surveys do touch on remittances, they are often very naïve.
 - i. For example, the question is often phrased as follows: “How would you spend remittances?” – this question is silly because it supposes an earmarked funding source.
 - ii. Better way to do this: divide receiving household from non-receiving households, how do they spend their money?
 - iii. The best way to achieve this is to use large nationally representative household surveys.
 - d. Difficult to get cooperation from countries.
 - i. May not understand importance of the surveys.
 - ii. May not have capacity to conduct surveys.
 - iii. Other bureaucratic issues.
3. Current Work

- a. Beginning to work on large national surveys. However, most existing national surveys are not very good with respect to remittances.
- b. Analysis of migration/remittances on development across a broad cross section of different countries.
 - i. Data is incomplete, but best available. Migration data doesn't include illegal migration. Additionally, includes no information about senders.
 - ii. Important Finding: International migration/remittances reduce poverty in the developing world.
- c. Development impact of remittances on Ghana and Guatemala
 - i. Comparing domestic (ie., rural migrants who travel to urban centers and send money home) and international remittances.
 - ii. Each of these kinds of remittances reduces poverty.
 - iii. Found that remittances often go to the poorest decile group.
 - iv. Most funds are going to the top and bottom income deciles.
- d. Spending patterns in Ghana and Guatemala
 - i. Guatemala – analyzed spending patterns of three sets of households.
 - ii. Compared at marginal spending of households that received remittances.
 1. Guatemala – most additional remittances were not spent on consumption, as compared to non-receiving households.
 2. Households receiving remittances were spending more on education than those not receiving remittances.
 3. Additionally, substantial amounts of the money were going into housing expenses.

Questions

- What are the different poverty measures you look at?

It is important to use these different measures to properly assess the poverty impacts of remittances.

Poverty headcount –number of households beneath some arbitrary lines

Poverty gap – average distance beneath the poverty line.

Poverty severity – both the number, the distance and the square of the distance to weight the extremely poor more than the less poor

- Does Brain Drain have any benefits?

Some people argue that brain drain may benefit countries by increasing perceived returns on education. The problem is this is a very difficult thing to quantify.

- Question relating to the endogeneity problem in the Adams/Page paper?

The argument is that remittances reduce poverty. However, poverty may influence remittances. They both may affect each other, which creates a measurement problem.

In the paper, they needed to find substitutes for remittances, so as to avoid the endogeneity problem. In this case, they used “distance” as a substitute for remittances.