International Migration and Global Economic Inequality

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Does International Migration Help to Alleviate Global Economic Inequality, or Does it Cement Current Asymmetries?

Introduction

The debate about the connection between migration and inequality has been mainly about whether the movement of people increases or decreases inequality in the world. The outcomes can vary since it is possible that inequality would increase in the country that receives migrants but decrease in the country that sends them, yet it is also possible that the opposite would happen. Additionally, we should consider that both states could benefit or be harmed by migration, increasing either misfortune or welfare in the world as a whole. I argue that in order to understand the real effect of inequality in the world, we should consider various case studies on different countries, continents and time periods, as there have only been a few attempts of a synthesis like this. I will combine the different studies and produce an analysis that can help us understand what to expect from migration in the present day.

In the first part of the essay I will analyze the effect of migration on the receiving country, which is the state that experiences the inflow of migrants. The second part will focus on the sending country where the migrants are from, discussing the barriers to migration, the concept of "brain drain" and remittances. I understand "international migration" as the movement of people over borders from sending countries to receiving countries in this essay. I will conclude that migration has either a small or a nonexistent effect on the receiving country but for the sending country it has a negative impact in the short term and a positive in the long term. The third part of this essay will focus on the historical perspective of 19th to early 20th century North Atlantic migration which resulted in a reduction of between-country inequality. This comparison will enable us to see that the same is actually occurring nowadays due to the similarity of problems, like the scarcity of agricultural land and the global wage gap, that existed both in the 19th century and now.

When referring to global economic inequality between countries today in relation to the example of 19th century migration, I will be mostly using the "concept 2" definition of inequality by Branco Milanovic, which is the population-weighted international inequality, but when I am bringing up the issue of inequality within the receiving and sending countries of migrants I will base my assumptions mainly on the Gini index.[1] In the example of migration and its effect on inequality in the 19th century, I use "concept 2" which defines inequality as between countries but everybody has the same income inside a country.[2] I will use "concept 2", since the writings that I base my claims on (for example by Williamson) do not refer to within-country inequality but the convergence of average wages. This essay will address the question of whether international migration is alleviating economic inequality or cementing current asymmetries.

Does Migration Alleviate Inequality in the Receiving Country?

One of the conventional arguments against immigration has been that it will cause an economic shock to the receiving country's labor market, which would thereafter drive down the wages of the unskilled and create massive income inequalities between the higher skilled locals and the lower skilled immigrants. Bean et al. claim in their analysis of labor market segmentation that these vast differences between the wages of workers can occur due to the lower education of migrants, but also because of the employers' preferential treatment due to their national origin.[3] But is this really the case?

Since usually a large number of immigrants are low-skilled or unskilled workers, we might expect a detrimental effect on the wages of local low-skilled workers that would cause further inequality by widening the gap between high-skilled workers and low-skilled workers. This is consistent with classical economic theory that presupposes that immigrant labor would drive down the wages of low-skilled workers but would not affect the wages of high-skilled workers as greatly. The same line of thinking is used by Kahanec and Zimmerman, who, while basing their claims on economic theory and empirical data, argue that the share of educated labor has shown to have a U-shaped downward sloping relationship with the Gini coefficient.[4] This means that the entry of highly skilled immigrants into the labor market of a developed country that has a high ratio of highly skilled labor has been shown to cause a decrease in the Gini index and lower the level of inequality. Their argument, however, also might suggest the opposite: if the immigration of low-skilled workers was to occur, then it could actually bring about higher levels of inequality. Yet again, does this actually happen?

Some studies claim that this is not the case, and immigrants either have a small positive or a completely non-existent effect on wage rates in the host state. Borjas, Freeman and Katz et al., assert in their 1997 study that the effect of migration on the labor market is not clearly negative but more or less ambiguous. They conclude that even though the inequality of wages has been on the rise in the US since the 1970's, this cannot be explained by increased immigration but by a wide combination of other economic factors that affect job markets.[5] A similar conclusion was reached by a 1990 study of the impact of the Mariel boatlift, an exodus of nearly 125 000 Cubans to Florida, on the Miami labor market. The authors found that although the sudden inflow of Cubans increased the local labor supply by a total of 7%, it did not seem to have a detrimental effect on the wages of unskilled natives, nor on previously migrated Cubans or other immigrants in Miami.[6] Despite the fact that newly migrated Cubans did on average earn less than, for example, white Americans, on the positive side they were relatively quickly absorbed into the labor market and did not become a burden to the welfare system. Studies in post-2004 Enlargement of the Europe Union confirm this notion and state that overall migration had only a very small or non-existent impact on the unemployment rate and wages of the lower skilled sector in the EU15 countries.[7] This has disproved the argument that immigration has a clearly negative effect on the wages of the low-skilled locals or causes massive levels of unemployment among the immigrants that could drive an even larger wedge between high-skilled and low-skilled workers.

It is possible that the previous studies did not find a significant effect because they focused on migration to wealthy countries, which generally have strong economies and are better able to absorb migrants. According to this line of thought, migration that occurs between developing countries would be dramatically different because the wage differentials between the receiving and sending countries would be smaller and the local institutions would have less power to cope with newly arrived immigrants. Even though these assumptions might seem correct, the case studies tell a different story. An exceptional example of South-South migration has been Costa Rica where the sudden influx of Nicaraguan immigrants in the 1990's coincided with a rise in inequality (Gini index rose from 0,40 in 1992 to 0,45 in 2000). On the face of it, there seems to be a direct causal link between immigrants and the rise in income inequality, but research done by Thomas Gindling showed that "if anything, the presence of Nicaraguans in the data reduces inequality".[8] In addition, earnings in those industry sectors where immigrants were predominant grew faster than other sectors.[9] The immigration of Nicaraguans has therefore actually been complementary to the work force and provided a better allocation of labor.

Taking into account case studies, it is clear that no matter whether concerning a developed or a developing country, immigration does not increase or decrease inequality in the receiving country in relation to the Gini coefficient. Moreover, migration seems to have been a positive force which has allowed migrants to take hold of higher wages in the receiving country without disturbing its local labor market. If inequality has been growing in places like the US and Costa Rica, then its causes seemed to be external by nature and cannot be directly attributed to migrants.

The Effect of Migration on the Sending Country

When discussing whether migration can alleviate global inequality, it is also vital to address the issue from the side of the sending country. The primary issues here are the unequal access to migration, “brain drain” and migrants' remittances. All of these points in question have ambiguous implications and are need of further analysis in this essay.

Let us focus to the issue of unequal access to migration. With unequal access to migration I am referring to the disparities in the capacity of developing country nationals to move to other countries. The existence of capital plays a strong role in this regard. In Western India, for example, access to recruiters' or relatives' networks abroad constitutes the most important factor of a migrant's ability to move to another country.[10] An emigrant needs a considerable amount of start-up resources to begin a journey across the border. This is supported by the fact that the largest volume of migration towards the OECD countries is from middle-income countries (49,9 million) and smallest from low-income countries (11 million).[11] Clearly, this does not mean that the nationals of low-income countries do not want to move to OECD countries, but that they lack the resources to undertake emigration. A certain amount of capital is needed to migrate and this the main reason why the largest emigrant countries in the world, such as Mexico and Turkey, do not belong in the list of least developed countries.[12]

The second issue is the “brain drain”, which occurs when an unprecedented amount of persons with high skills leave their home countries to work elsewhere, contributing to a drain of highly educated labor with tertiary education. This can be most clearly seen in areas like the Caribbean, where 80% of workers with higher education qualifications from countries like Haiti, Jamaica, Grenada and Guyana work and live overseas, mostly in the US and OECD countries.[13] Some authors, like Kapur and McHale, suggest that migrants who leave their home countries can contribute to continuing economic and social stagnation back home and reinforce conventional inequality between developed and developing countries.[14] Other authors, such as Hein de Haas, disagree with this bleak viewpoint and argue that in reality a “brain drain” takes place on a massive scale only in very few countries and on the global level the developing world does not lose a large share of the highly educated.[15] According to this argument “brain drain” does not have a large impact when one considers the bigger picture. Additionally, the negative effects of migration might become smaller if one considers the usefulness of measures like remittances to alleviate inequality.

In previous decades, remittances have grown faster in the least developed countries than net foreign direct investment inflows – proof that they have begun to play an increasingly significant role in the field of development.[16] However, the effect of remittances on inequality in the sending country of the migrants is not so clear-cut. Remittances have also been criticized for generating extra consumption spending and not being used for long-term investments. De Haas has brushed this off, claiming that remittances, if anything, “potentially enable migrants and their family members to invest in agriculture and other private enterprises”, giving them a chance to invest in their economic activities and gain access to wealth.[17] Likewise, when referring to countries like Albania which have experienced massive amounts of emigration in the last decades, studies have shown that remittances have been a strong contribution as long term investments. The World Bank estimates that 60% of new apartments in Albania have been built with funds from remittances.[18] But, as in the case of “brain drain”, there seems to be a difference of effects when looking at other regions. When looking at Pakistan and Bangladesh, the inequalities between the locals have actually increased thanks to remittances. Those who have the access to foreign income through migrant relatives have become considerably better off than those who do not, and as it turns out, access to foreign funds has actually cemented existing inequalities in these regions.[19] This is connected with the issue of unequal access to migration and initial capital, whether families have money to send family members to other countries.

While “brain drain” does take place in the developing world, it could be offset by remittances and the fact that migrants gain an entrance to the developed world where they can improve their well-being. The developmental impact of remittances is negated when we take into account the amount of resources people from developing countries need in order to undertake migration. This can even strengthen existing inequality in relation to the Gini coefficient in sending countries. From the viewpoint of the sending country the effect of migration on inequality remains unclear.

The Historical Perspective and its Implications for the Future

Between 1820 and 1914, 25.5 million migrants set out from mostly the poorest parts of Western Europe and crossed the ocean to settle in the United States of America.[20] They mainly came from impoverished European countries like Norway, Sweden, Ireland, Spain and Italy that were land-scarce but labor-abundant, and moved to countries like the United States and Canada, which were comparatively land-abundant but labor-scarce. This corresponds with the Heckscher-Ohlin theorem which states that capital-abundant countries (the US) will be able to draw in labor but countries that are abundant in labor (Italy, Spain, Norway, Sweden) would attract capital- creating a two-way movement that would be mutually beneficial. The question remains, whether transatlantic migration reduced economic inequality in relation to "concept 2" of Milosevic or not, and also, if we are able to compare it to South-North migration today?

Jeffrey G. Williamson has argued that in the long run the North-Atlantic migration caused considerable convergence in the wages between the labor markets of Western-Europe and North-America.[21] Those workers who left their home countries were able to gain employment in the fast growing economies of the USA and Canada, but at the same time, incomes also grew for those who stayed behind in the sending countries. This would mean that both those that left and stayed became relatively better well-off than they had been before. This correlation could be due to the fact that European countries like Norway and Ireland were pre-destined to experience economic growth because of technological advancements and decreasing birth-rates. However, Williamson claims that, without emigration, the living conditions of the people who stayed behind would have improved more slowly: for example, if Sweden had not experience any emigration between 1870 and 1910, wage growth would have been 12% smaller.[22] Hence, it decreased the transnational income inequality between the countries of the receiving and the sending countries by making labor scarcer in the Old World (sending countries). A similar catch-up effect could occur as a result of South-North migration where receiving country wages can be higher by more than ten times from the wages of the sending country. The more people migrate, the more convergence of average wages will take place.

While considering the positive effects of the great migration from the second half of the 19th century till 1914, not exactly everybody ended up winners in the end. First of all, it is important to note that not all European nationals that took part in the migration across the ocean saw their home countries' salaries catch-up with the ones in North America. Eastern Europeans, for example, did not manage take part to the same extent in convergence – wages remained vastly lower than those in Western Europe and North America.[23] From here on, it is already possible to witness an important part of differentiation that took place among the immigrants. This was further strengthened by hierarchization, as job opportunities were much better for immigrants from Northern and Western Europe than for immigrants from Eastern or Southern Europe.[24] This certainly caused inequalities in the short term income among the immigrants themselves in relation to the Gini index but not in relation to "concept 2", the population-weighted between-country inequality (between the New and the Old World countries).[25] Only in the long term did the effect of selectivity for jobs soften, when enough migrants were able to gain a foothold in the country and create proper networks that could help future migrants integrate into the society. A similar reaction has taken place in the developed countries of today, where migrants have become more successful when their ethnic communities have become larger and more affluent.

Secondly, on the side of the receiving countries, it is important to point out that some studies assert that immigration had a negative economic effect on real wages. For example Hatton et al. claim that in the case of the US real wages would have been overall 9% higher in the absence of migration (when presupposing perfect capital mobility with constant rate of return).[26] By focusing on the positive economic effect of convergence in the sending countries, one also has to consider the fact that it might have come at the expense of overall lower wages in the receiving country. This could be a simplified assumption since it is founded on conditions that do not actually occur in the real world (perfect capital mobility and constant rate of return) but should still be worth acknowledging.

The main reason why migration had such a large impact on the convergence of wages was caused by immobile factors such as land, which previously played an important part in the largely agricultural 19th century countries of Europe.[27] The same problem persists in the world today as most of the developing world's labor force is engaged in agriculture, compared to 10% in the developed world.[28] As people left Europe in the 19th century, this alleviated land-related tensions in the sending countries and addressed the issue of too many people being employed in unproductive agriculture.

It is clear from this analysis that the same is also happening now when an unprecedented number of people are on the move: today one person out of every 33 in the world is a migrant.[29] Even though land and factors like natural resources might not play the same role as they did in the North Atlantic economies during the transatlantic migration, parallels can be seen with the migration that is taking place between developing countries and the OECD. Millions of people in Asian and African developing countries are highly dependent on the land they cultivate, surviving on subsistence agriculture. Currently, it is estimated that almost 60% of the world's agricultural workers (1.3 billion people) live and work in the developing world which is also proportional to the incidence of poverty (1.1 billion people live below the poverty line in the developing world).[30] They are people who are increasingly affected by climate shocks and have a larger incentive to move. Since the wage gap between the global South and North is very substantial, land is scarce and birth rates continue to be comparatively high, this could be the premise for an exodus from the global South to the North, similar to what took place from poorer parts of Western Europe to North America in the 19th and early 20th centuries. This migration that is already taking place from poorer to wealthier countries is helping people gain higher wages and a better quality of life. As we saw from the example from the 19th century, life not only became better in the long run for the migrants abroad but the wages also grew for the people who stayed home. The only problem that still remains whether the governments of the developed countries decide to restrict this migration or allow it.

Conclusion

The case-studies on migration and its interconnectedness to inequality offer a multifaceted look into the possible outcomes. The receiving countries tend to win inequality-wise from the inflows of migrants or stay completely unaffected (in relation to the Gini coefficient). Overall it was apparent in the case-studies that the influx of migrants has not increased inequality by lowering the wages of the low-skilled in the host state. The question seems to be more in relation to what kind of migrants are entering the labor market of the receiving country and what kind of skills they are taking with them. In the case of highly skilled migrants, the effects seem to be thoroughly positive but with low-skilled migrants the issue is not so clear unless ageing and low birth rates of the receiving country are taken into account. In that case there would be urgency for all types of skills.

Concerning the effects of migration on the sending countries, the perspective of inequality does not seem wholly positive due to the existence of threats such as the "brain drain", the ineffective use of remittances and the continuing unbalanced economical advantage of the wealthier in society when taking up migration. Remittances do seem to limit the negative effect of migration and the "brain drain" does not necessarily affect the populations of the developed world as a whole. Moreover, when considering the case of countries such as Albania, remittances are doing much to help the people who stay home. In the short term, migration can cause more inequality in the sending country when the gap between the rich and the poor is already large – the poor have already a smaller chance of migrating than the wealthy. However, the example of 19th century transatlantic migration has shown that in the long term sending countries could actually end up the biggest winners with higher growth and development.

Simultaneously, it is paramount to take into account the historical perspective, which could signal the future of global inequality. Transatlantic migration has taught us that the convergence of sending and receiving countries' wages is more than likely to happen in the future. It is conceivable that the more migrants are allowed to enter developed countries, the more the wages of the developing countries will catch up with the wages in the developed world. However, certain aspects of migration might not be considered favorable: the people from less developed countries do not ostensibly have the same opportunities as people from more developed countries but both will take part in international migration. In conclusion, overall inequalities could decrease in relation to population-weighted between-country inequality ("concept 2"), but when considering changes within countries (through the Gini coefficient), the results do not seem as clear.

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