

# International Migration in the Age of Globalization

**Historical and Recent Experiences**



**Andres Solimano**

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## INTERNATIONAL MIGRATION IN THE AGE OF CRISIS AND GLOBALIZATION

The international mobility of people is a main feature of the global economy of today and yesterday. However, external openness is often more favorable to the mobility of goods and money than people across different periods of the world economy including times of crisis, globalization, nationalism, and autarkic trends. Immigration augments the labor force in receiving countries and provides many of the bodies and minds that are essential to any vibrant economy. The international mobility of human capital and talented individuals is critical to the transfer of knowledge, ideas, fresh capital, contacts, and entrepreneurial capacities. This book, which promotes a freer and more humane regime for the mobility of people, is based on a blend of theory and empirical evidence comprising varied country examples and rich historical material ranging from the mid-19th century to the early 21st century. It discusses the conceptual underpinnings of the push-and-pull factors of current migration waves and their impacts for development on the source and receiving countries. The analysis reviews the historical context under which various migration experiences have taken place – both in periods of internationalism and in periods of nationalism – in order to contribute to debates on the desirability of and the tensions and costs involved in the current process of international migration and globalization. These issues are relevant during times of both economic crisis and slumps and times of economic growth and prosperity.

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*Historical and Recent Experiences*

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*To my wife Bernardita, daughters Gracia and Paula, and son Pedro.*

*To the memory of my late mother Sofia. To my father Ivan.*

“Give us your tired, your poor, your huddled masses yearning to breathe free.”

*Inscription on the Statue of Liberty, New York, erected in 1886*

“A Third World invasion of the United States, the largest in History, is taking place today along our undefended two-thousand-mile border with Mexico; *La Reconquista*, the reconquest of the American Southwest by Mexico, is underway.”

*Patrick J. Buchanan, former U.S. Presidential Candidate,  
State of Emergency, 2006*

“Realizing potential global welfare gains from migration may require not just allowing individuals to emigrate from low-income countries in larger numbers but also allowing them to sort themselves across receiving countries according to labor markets’ reward to skill.”

*Professor Gordon H. Hanson, University of California, San Diego,  
International Migration Expert, 2008*

“The new directive on return of immigrants in Europe establishes criteria for the deportation of irregular immigrants in 27 member states and prison terms from 6 to up to 18 months for undocumented immigrants.”

*Law Resolution of the European Parliament, approved June 2008*

“We were very generous with the Europeans who arrived in our land in the last century, and the truth is that it is not fair for our people to get a denigrating treatment (in Europe).”

*Michelle Bachelet, former President of Chile, the 35th Presidential Summit  
of MERCOSUR countries, Tucuman, Argentina, July 2008*

“When European migrants arrived in America, they took possession of thousands of hectares of land, mines, natural resources and exploited our people, while on the contrary, the Latin American people in Europe are not exploiting anyone, (and) they are not taking possession of thousands of hectares of land and mines, they are not destroying the natural resources.”

*Evo Morales, President of Bolivia, the 35th Presidential Summit  
of MERCOSUR, Tucuman, Argentina, July 2008*

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# ONE

## Introduction

### Understanding the Trends, Themes, and Strata of International Migration

As the quotations presented in the front matter of this book show, the international mobility of people is a controversial issue, with attitudes ranging from openness and tolerance toward immigrants in good economic times, to reluctance and even xenophobia and resentment, particularly during times of economic slowdowns, unemployment, and financial insecurity such as the one we live in now after the financial crash of 2008–09. From the late 19th century to the mid-20th century, international migration was an important engine for economic growth in such destination countries as the United States, Canada, Argentina, Australia, Brazil, and New Zealand – the so-called New World countries. Most of the immigrants to the New World came from Europe, particularly from Ireland, Italy, Spain, Poland, and Scandinavia, and from Asian nations (although the Chinese were often restricted). In the early 21st century, the geographic landscape of origin and destination countries for international migrants has changed fundamentally. In the last 20 years or so, due to their higher living standards and new economic opportunities (albeit moderate or partially reversed by the financial crisis of 2008–09), Ireland, Spain, Italy, and the Scandinavian and some Asian countries have turned from being, historically, net emigration countries to net recipient countries. These immigrants come from Latin America, Asia, Africa, Eastern Europe, and Russia – countries and regions that, at different points in time, have suffered economic and financial crises and political turmoil, and whose people seek, in foreign countries, more economic opportunities and stability for themselves and their families that are elusive at home. However, return migration from Spain, Ireland, and

the Czech Republic to Latin America, Eastern Europe, and Sub-Saharan countries is also taking place, because the receiving economies are also hit hard by the global economic slump of 2008–09.

At a time in which immigration is seen with skepticism and even open hostility in some recipient nations, it is useful to remind ourselves that immigrants contributed their bodies, minds, entrepreneurial energy, and creative talents to support efforts at mobilizing land, natural resources, and capital to spur economic growth and to help build the prosperity of their destination countries. The nations of the New World had abundant land and natural resources but were in need of people and capital – attractive for international migration, as well as financial inflows, to these countries. In the first wave of globalization (c. 1870–1914), Irish, Italians, Spanish, Poles, Russians, Swedes, and others flocked to New World economies. Great Britain, along with Germany and France, became the main financial center of the world's economy and the main source of external financing for these economies. Historically, capital and labor often went in tandem to nations that offered better opportunities than those found at home, a factor that contributed to a degree of income convergence across nations.

Now, in the early 21st century, the countries of North America, Europe, Japan, and Australia are – thanks, in part, to immigration – economically advanced and generally prosperous nations, enjoying much higher levels of per-capita income than the rest of the world, as well as superior technologies and organizational capacities. However, economic maturity is now coexisting with slow or stagnant population growth, low fertility rates, and an aging population. In some advanced economies, the population is shrinking. Thus, immigration provides much needed workers, professionals, and entrepreneurs to support growth and fill jobs in the service, technology, and health-care sectors, and in construction and agriculture – jobs that nationals increasingly do not want or where qualified candidates are in short supply. In turn, these countries need the fresh talent, ideas, and entrepreneurial drive that are often provided by immigrants in areas for which there exists a shortage of skills, such as the information technology sector, the health-care sector, and academia. The arrival of people is different from inflows of capital and goods. Receiving nations face complex dilemmas to accommodate strong pressures for immigration. The debates on the

economic gains and the labor market, fiscal, social, and cultural consequences of migration are heated. This book seeks to provide conceptual underpinnings behind the pushing and pulling factors of current migration waves, their development impact on source and receiving countries, and the historical contexts under which various migration experiences have taken place in order to contribute to the debates on the desirability, tensions, and costs involved in the current process of international migration and globalization. These issues are relevant at times of economic slump and beyond.

### **1.1 International Migration: Incentives and Drive Face Barriers**

Before discussing some of the imperatives behind and historical realities of international migration – the themes and important topics that are at the forefront of any discussion of international migration – this introduction highlights today’s overriding conflict that is at the core of the debate. That is, a vast multidirectional movement of international migrants, spurred on by big differences in wages, living standards, degrees of economic security, and political stability across regions and countries, are butting up against policy barriers in wealthy countries that wish to stem the very tide that these countries are (perhaps unintentionally) creating. Moreover, in addition to the barriers to immigration in recipient countries, we find a certain indifference, or benign neglect, to emigration in origin countries as emigration contributes to “solving” domestic problems of open unemployment and underemployment in these countries. At the same time, the combination of the increased demand for immigrant manual and knowledge workers in times of economic expansion and the shortage of workers and skilled professionals, along with restrictions to mass immigration, causes a rise in irregular (or illegal) migration. In practice, actual migration policies in the north (advanced economies) are a practical compromise between a restrictive stance, particularly toward less-skilled immigrants, and a tolerance for undocumented and “illegal” migration. A main theme of this book is that, without addressing the core inequalities of the global economy and steering more dynamic and equitable

growth and development in the south, which is the main source of migrants in the global economy, it will be very difficult to contain the strong pressures for immigration to rich countries. At the same time, managing migration pressures will require an institutional framework to deal with international migration, a framework that today is largely absent. Such an institutional framework must address and regulate the main features of the current migration regimes in high-income recipient countries: (1) the tendency toward tolerated, irregular migration in segmented labor markets, which provides a flexible and low-cost labor pool to domestic firms and households in the recipient countries; and (2) the more favorable and liberal immigration rules directed toward foreign “knowledge workers” or “talent elites,” which help recipient countries maintain competitiveness in an increasingly competitive global economy that is in contrast with the tougher regulations on immigration of less-skilled workers; and (3) the lack of labor rights of irregular migrants. The pressures for immigration in high-income countries have receded to some extent in this time of economic slump, but these trends are likely to reappear once the global economy recovers from the current downturn.

a. People Are Now Migrating Internationally in Patterns  
that Differ from Historical Patterns

As of 2005, approximately 191 million people worldwide – nearly 3 percent of the world’s population – were living in a country different from the country in which they were born. International migration has increased substantially in the past four decades, particularly toward high-income countries, increasing threefold between 1965 and 2005 – the fastest growth period since the late 19th and early 20th centuries (Ratha and Shaw, 2007). Approximately 63 percent of these 191 million immigrants have gone from low- to medium-income developing countries to high-income Organisation for Economic Co-operation and Development (OECD) or high-income non-OECD countries. If we consider “north” as only the OECD countries, around 40 percent of people coming from developing countries (around 62 million people) go to work “in the north.” From an economic perspective, the direction

of international migration is directly related to differences in per-capita income and living standards across countries; the main income disparities are between the wealthy north and the less-affluent south. In spite of ample disparities in income levels and opportunities across countries, the current level of international migration is still relatively modest on a *global* scale: No more than 3 percent of the total world population lives and works in foreign countries. However, this world average conceals the fact that a group of high-income countries such as Australia, Canada, Belgium, the Czech Republic, Ireland, Italy, Luxembourg, Great Britain, the United States, the Netherlands, and Sweden have a foreign population that exceeds 10 percent of their total population. In fact, three of these countries have a foreign population that is more than 20 percent of their total population: Australia, Luxembourg, and Switzerland. However, new data on international migration show that the north is not the only destination for migration. Recent data compiled by the World Bank indicate that approximately 47 percent of the migrants from developing countries (about 74 million people) also go to other developing nations – a “south–south” migration (Ratha and Shaw, 2007). In general, per-capita income and wage differentials among countries in the south are smaller than that between the south and the north, but they do exist and create incentives for the cross-national movement of people. Still other factors, such as geographical proximity, social networks, and similarity in cultural backgrounds and language, are important for explaining south–south migration flows. It is also interesting to note that a north–north migration exists – people from high-income OECD countries who live and work in other high-income OECD countries. In fact, 85 percent of migrants from the north (25 million people) are in other countries of the north. Only 11 percent of people in the north (3.4 million people) migrate to developing countries in a sort of north–south migration. This mobility may be due largely to the movement of workers, professionals, and executives who are employed or subcontracted by international corporations with operations in the south, or to the movement of international students from the north to the south.

If we consider migration flows by region, south–north migration represents 87 percent of total migration from Latin America and the

Caribbean, 85 percent from east Asia and the Pacific, 80 percent from the Middle East and North Africa, 50 percent from south Asia, and 31 percent from Sub-Saharan Africa. However, international migration today is a multidirectional process – not only south–north, but also north–south, south–south, north–north, east–west, and so on.

### b. Free Immigration Has Evolved into Visas, Walls, Deportation

Until World War I, international travel was rarely subject to the use of passports – borders could be crossed easily. In addition, countries were eager to lure migrants. For example, in the mid-19th century, the government of Argentina offered European immigrants free ship transport, automatic Argentine nationality, and land ownership because the country needed people to work on farms and in factories, and to undertake new investments. The United States also wanted to expand its internal frontier and have people exploit its large tracts of land, help with the discovery of gold, and provide the hands and minds to support industrialization in the 19th century. Between 1820 and 1880, political and economic conditions brought more than 2.8 million Irish immigrants to the United States. German Catholic immigrants came during the 1840s. In 1875, Congress passed the first restrictive statute for immigration, barring convicts and prostitutes from admission. Ethnic restrictions fell on certain nationalities, such as Chinese immigrants (the Chinese Exclusion Act was finally repealed in 1943) and then in 1907 on the Japanese. By 1920, nearly 14 million of the 105 million people living in the United States were foreigners.

Then military and security restrictions on travel and migration during World War I ushered in a world of passports, visas, and work permits governing international migration. In fact, the League of Nations held a conference on passports in 1920, followed by two other conferences in 1926 and 1927.<sup>1</sup> In addition to international identity cards (used until today), countries began requesting entry permits, better known as visas,

<sup>1</sup> The UN held a conference on travel in 1963, culminating in 1980 with the standardization of passports under the auspices of the International Civil Aviation Organization, ICAO.

that often specified a temporal duration and that placed various restrictions on the purpose of international visits (tourism, family visitation, work, business, and so forth).

In the early 21st century, wealthy industrialized countries chose to ramp up their restrictive policy environment by drawing distinctions in their visa structures for *categories* of migrants according to their skill levels, education, and special expertise and knowledge, so as to maximize the transfer of these characteristics to the benefit of their own economies (Chapters 3 and 6 discuss this issue in greater depth).

Visas and passports were not the only restrictions on international migration. More ominous was the erection of physical walls to prevent international mobility of people from some countries to others. Walls have been pervasive throughout history. The Great Wall of China was built more than 2,200 years ago by the first emperor of the Qin Dynasty in an ultimately futile effort to keep the Hsiung Nu tribes out of his territory. In 120 AD, the Roman Emperor Hadrian began building walls across Great Britain to prevent military raids on “Roman Britain” by Picts from the north. In the 20th century, “walls” did not disappear; instead new ones were erected. For military purposes, the Maginot line – a long strip of tank traps, fortifications, and tunnels stretching between Luxemburg and Switzerland along the French border with Germany – was built before World War II to prevent the Germans from invading France (also a futile effort). Then, in 1961, the Berlin Wall was erected to preclude transit and exit from (Soviet-dominated) East Berlin to the West, a wall that crumbled in 1989 with the collapse of the communist regime in East Germany. Other examples are the Israel Wall of Separation, and the wall built along the 2,200-mile U.S.-Mexican border corridor to prevent Mexican immigration to the United States.

Another force-based mechanism to restrict and reverse immigration is physical deportation. In June 2008, the European Union approved a “return directive” that stipulated deportation and prison terms for undocumented immigrants. Chapter 4 provides an account of the interaction between events and policies regarding immigration restrictions in various countries of the world, including the United States and some European nations, throughout the 20th century.



## 1.2 Eight Critical Themes Underscore the International Migration Process

To help guide the reader through the rest of this book, this section delineates eight major issues, including challenges and contradictions in the current global economic order that are at the core of many debates surrounding international migration.

### a. Critical Theme I: Why Is International Migration Such a Contentious Issue and Internal Consensus So Difficult to Reach?

The growing international mobility of people is an indication that, by moving from one country to another, people have enhanced access to better jobs, higher wages, potentially promising business opportunities, new technologies, knowledge, and ideas. All this is possible through openness and globalization. At the same time, however, international migration is often an *internally divisive* issue in destination countries, affecting the interests and values of different actors in different ways. Also, international migration can be a contentious issue in the *realm of economic and diplomatic relations* among countries. Although the economics and demographics of high-income countries – high wages, slowly growing populations, and shortages of internal talent in high-tech, academia and medical-services sectors – explain why immigration has a clear economic rationale, securing an internal consensus on international migration is complex.

In fact, in the main destination country for international immigrants, the United States, consensus on immigration is elusive (just as it is in Europe). As events in recent years show, the United States is finding it difficult to agree on comprehensive new legislation that satisfies the various players – companies that need migrant labor to moderate wages and enhance profit margins; labor unions that see immigrants as competing for jobs and potentially displacing local workers (although other unions can be pro-immigration, perceiving that immigrants will take jobs that Americans do not want anymore, and that they are a new group of labor that can be organized and mobilized); conservative groups that are afraid

of the cultural consequences of massive immigration for national identity and sovereignty; public opinion that tilts between pro and con; and policymakers and politicians who are concerned about the pressures of immigration on the costs of housing and public finances and its impact on voters. Still another important actor is, of course, the immigrant community itself – its economic interests, legal status, and social demands.

It is also notorious that most economic agreements among nations (perhaps the European Union could be the exception) tend to focus on trade, foreign investment regimes, intellectual property, and other areas but often very little is formally negotiated on international migration. The partial exception is perhaps Mode 4 of the GATS (General Agreement on Trade and Services), which regulates the supply of services of nationals of one country in another country.

**b. Critical Theme II: Migration Flows Have Flourished  
in Periods of Capital Mobility and Globalization, and Have  
Declined in Periods of Crisis and Economic and Political  
Nationalism**

Economic nationalism and political and racial intolerance have driven waves of high hostility to international migration through the 20th century, particularly in the interwar years and other noteworthy periods in specific countries and regions. In contrast, capital and labor mobility have risen, roughly in tandem, in the first wave of globalization in the late 19th and early 20th centuries, increasing again in the late 20th and early 21st centuries, despite the more restrictive immigration policies in high-income countries (but not for capital) in the current (second) wave of globalization. Capital moves internationally in periods in which mobility is unrestricted in response to opportunities, differences in rates of return to capital and resource endowments, macroeconomic imbalances, legal security for foreign investment, and the overall investment climate. People, in turn, move internationally also for economic reasons except in periods of war or internal conflict in the origin countries. The relationship between capital and labor mobility varies over time and among countries. The United States, the main immigration country in the world economy, is currently a net importer of both capital

and people, although in other epochs of the 20th century it was a net exporter of capital (while being consistently a net importer of people). In turn, Argentina was an importer of people and capital from the mid-19th century until the mid-20th century when it switched to a country of net emigration for professionals, intellectuals, and to some degree economic elites, although still remaining a net immigration country because of immigration from lower-income neighboring countries. In periods of acute economic and political instability and insecurity, Argentina in the 1970s, 1980s, and early 2000s exported capital in the form of capital flight. Likewise, Russia's road to capitalism since the 1990s has been accompanied by emigration to Western Europe, Israel, and North America. In turn, the financial crisis of 1998 and instability later in the decade invited capital flight. This syndrome of instability was also present in several countries of Latin America, Sub-Saharan Africa, and south Asia in the past three or four decades, thereby retarding economic development in these regions. In contrast, stability, prosperity, and democracy will invite people and capital from abroad, supporting domestic growth and development in a virtuous cycle. The main point here is that the direction of international migration flows and capital movements to and from a country tend to follow, closely, the phases of their development process and the macroeconomic cycles relative to other countries, in both periods of economic success and economic failure.

### c. Critical Theme III: Migration as a Consequence and Mitigation of Income Disparities in Our Global Society

Economic historians have shown that rapid economic progress in the world's economy in the past 150 years or so has been accompanied by greater inequality than existed in previous centuries of less dynamic growth and slower technical change. In addition, the main variation in inequality in the past 150 years has been *among* countries rather than *within* countries. Therefore, a main concern of current globalization is the contrasting disparities in income levels, living standards, and economic potential across nations. These international disparities create powerful incentives for international migrations. At the same time, if

allowed to proceed, this process should usher in a certain degree of convergence in wages and income across countries, as it did in the past with the “Atlantic Economy” in the era of mass migration in the late 19th century. However, as shown in [Chapter 3](#), wage convergence is currently mitigated by the fact that today’s international labor markets for most skill and educational levels are much less integrated than today’s goods and capital markets and yesterday’s labor markets in the first wave of globalization in the late 19th and early 20th centuries. Part of the reason for the segmentation in international labor markets lies in the multiple restrictions placed by receiving nations on the international mobility of people, particularly the poor and manual workers – a restriction that also extends, to some degree, to higher-educated, higher-skilled individuals. These restrictions are largely shaped by the *internal political process* of the receiving nations as massive immigration could depress wages of domestic workers with comparable skills to the immigrants and bring about changes in domestic income distribution. However, a consequence of the *interference in the working of global labor markets* associated with multiple immigration restrictions and the bureaucracy of working visas and permits is the persistence of wage and income per-capita differences that are unlikely to be narrowed by international trade in goods as predicted by international trade theory.

#### d. Critical Theme IV: Are Goods and Capital More Important in Globalization than People?

The nature of the current wave of globalization is such that the international mobility of goods (commodities) and capital (money) across countries is much freer than the international mobility of people. Trade and capital-market regimes are more open than immigration regimes. The asymmetric treatment of people’s mobility in globalization opens the door to various interpretations. In 1867 Karl Marx wrote, somewhat ironically, in the opening chapter of *Capital* about “commodity fetishism.” The concept refers to social relationships that in capitalist societies apparently are transformed into objective relationships with commodities or money rather than relationships with the people who produce those goods. In a way, today’s freer mobility of goods and money as

compared to the movement of actual people could fit into Marx's metaphor: It is apparently easier and less socially contentious to deal with objects such as commodities and money than with actual people and the needs, hopes, and conflicts they bring.

Another possible interpretation is that trade relations, capital mobility, and international migration rules in the global economy simply reflect the different bargaining power between rich nations and Third World countries, with a bias in favor of the interests of capital owned by citizens of the "north" compared to the interests of people coming from the "south." In fact, high-income countries, via their internal economic agendas, tend to push for liberal investment regimes along with trade liberalization in the south (emerging economies and developing countries), but their stance become less liberal in the case of immigration regimes for migrants coming from emerging and developing countries. Exceptions include information technology sectors that need fresh brains that often are nurtured in the south in countries such as India, China, Israel, Taiwan, Poland, and others. Also, the growing need for medical personnel and the increasing labor costs in the health-care sector spur a demand for physicians and nurses from the Third World, coming from the Philippines, South Africa, and various Caribbean and Sub-Saharan countries.

These asymmetries between capital and people's mobility and between "knowledge workers" (or talent elites) and manual workers can be called the "people's paradox of globalization." Although globalization ultimately must be reoriented to increase the freedom of choice (including choice of location) and the welfare of people in a larger space than the national economies, it is a paradox that, in practice, people actually are the least mobile component of globalization compared when with goods, capital, and money. This book intends to explore the causes of why this is so and some of the consequences of this phenomenon.

e. **Critical Theme V: Why Are Talented Elites More Internationally Mobile than Workers?**

Another asymmetry, previously mentioned, in current patterns of international migration exists between the international mobility of elites and the international mobility of people (or laborers). The international

migration process is fraught with social and economic segmentation. We identify upper-middle-class people with higher education, special skills and knowledge, social connections, and entrepreneurial and investment abilities as “internationally mobile elites.” These people include, for instance, engineers, scholars, IT experts, scientists, graduate students, entrepreneurs, artists and writers, media-related people, and the technocracy of governments and international organizations that emigrate or move internationally for career reasons. Elite migrants also have much more favorable migration “circuits.” They operate in professional “ecosystems” that are favorable to their international mobility. One is the international private sector, consisting of multinational corporations and international banks that employ executives and professionals who move across countries according to the internal corporate (or bank) human-resource policy. These people often benefit from lower costs of moving internationally, often paid by their employers, and they receive relocation grants, housing, and educational support for their children in their destination country. Another sector is the “international public sector” – such international organizations as the International Monetary Fund, the World Bank, the United Nations, the European Union, the OECD, and others that employ economists, financial experts, engineers, and social scientists, many of whom are from developing countries. The members of this *international technocracy* have often obtained their graduate degrees (masters and doctorates) from universities in the United States, Canada, or Europe (Australia is making inroads in this area too). In turn, the senior management of international organizations often has served before in high-ranking positions in the governments of their home countries. These institutions lure professionals from developing countries – inviting “brain drain”? – and often offer high salaries and good benefits (health insurance and generous pensions) to their staffs. Such expatriates receive relocation grants and subsidies for education and sometimes housing, conditions that national governments in the developing world are unable – or unwilling – to offer in most cases. Other employers of elite migrants, particularly scholars and outstanding academics, are universities and research centers in developed countries; this could be an area of fruitful academic exchange between First World and Third World universities if adequately managed.

Elites and knowledge workers also face more favorable immigration regimes (visas, work permits, and entry requirements) than those for workers and ordinary people who, in the vast majority, find employment in the construction sector, janitorial services, housekeeping, and landscaping – that is, as laborers. These low-skilled migrants are often subject to stiffer immigration rules, face longer waiting periods for obtaining work permits and residence status, have less effective rights at the workplace, and often work without contracts, thus having less access to social benefits and entitlements. The social stratification and economic differentiation between migrant “laborers” and professional and entrepreneurial “elites” found at the national level are echoed at the international level, with different immigration regimes for the two groups and clearly separate circuits of work and influence.

The distributional and development consequences of this mobility for both origin and receiving countries are varied. For receiving countries, elite migration presents at least two main benefits and conveniences: First, they are a small number of people – thereby avoiding the more large-scale pressures on domestic labor markets and social services associated with massive immigration of workers. Second, this group of people has a high potential capacity, due to their skill and knowledge, to add significant economic value in recipient countries, and for that reason they are sometimes called “high-value migrants.” This addition of value can be particularly useful when receiving countries experience shortages of qualified human resources in critical areas such as the information technology sector, research and development, the health-care sector, and others necessary to support internal economic growth and for the country to remain internationally competitive. In fact, increasingly, high-income countries are putting in place “selective” immigration regimes that are oriented to favor the entry of people with higher education levels, rare skills, special knowledge, and fluency in domestic languages. The immigration of low-skilled workers is a different matter. The numbers involved are much higher and, therefore, the pressure on social services and housing, and the downward pressure on salaries of native workers is more serious. Thus, a delicate balance arises between the needs of companies and households for keeping labor costs down on one side and the

social, fiscal, and cultural features associated with mass migration on the other.

In contrast, the emigration of their elites deprives the origin countries, at least initially after emigration, of the contribution of entrepreneurs to wealth creation, of professionals to knowledge generation and application, of the services of medical doctors in the health-care sector, and so on. However, this brain drain may turn in the future into a brain circulation, bringing several development benefits to the home country along with return migration that brings fresh capital as well as professionals with knowledge of foreign markets, international contacts, and new experiences, and academics with frontiers of new knowledge. The practical significance of these effects is subject to continuous debate in the migration literature, and several of these arguments are reviewed and critically assessed in this book.

f. Critical Theme VI: Don't Always "Blame" the North:  
International Migration Is also a Response to Economic  
and Political Failures in the South

It is important to underscore that migration flows are often a response to economic and political failures in the *countries of origin* of the migrants. It is a well-established fact that low- and middle-income countries have more volatile economic and political systems than do high-income nations, which are often characterized as countries with stable democracies and mature economies. However, this assertion is starting to be revised on the economic side since the financial crisis of 2008–09 that affected the United States, the main industrialized countries in Europe, and Japan. The full consequences of the financial instability and economic contraction in the north on immigration flows, wages of foreign workers, and remittances sent back home remains to be seen, although we already observe a decline in immigrant worker's remittances more than massive return migration from the United States or Europe. Nevertheless, countries such as Spain and the Czech Republic, affected by rising unemployment, are encouraging their migrants to return home by subsidizing in part that move. In more normal economic times, workers, professionals, scientists, and entrepreneurs often leave their home countries because



they cannot find good jobs or decent pay, and do not have the stability to plan, do business, or undertake scientific endeavors. As discussed in [Chapters 2 and 5](#), people tend to emigrate from countries affected by poor economic performance, political crises, violence, and war. For net emigration countries, a diverse group that includes developing countries in Latin America, Africa, Asia, and former socialist economies in Central Eastern Europe and Russia, the rise of international migration has the elements both of a blessing and a curse. As emotionally disruptive and initially costly as emigration can be, it at least offers a means for economic advancement. In that sense, the prospect of migration also delivers *hope* – that of satisfying the higher expectations opened by a more globally interconnected world in which prosperity is offered daily by the media. A less-mentioned effect in the economic literature of migration is that it also buys a degree of *social peace in the origin countries*, because, by providing an outlet for people in countries with poor employment prospects and low wages, it prevents or ameliorates expressions of discontent. In turn, this may help mitigate the possibility that social tension will spill over into political polarization, destabilization, populism, or undemocratic politics. This social peace is bought, however, at various prices. One is the *human cost* that part of the domestic population must bear when emigrants must leave behind their family, friends, and the country of birth. Another effect is the brain drain if migration entails the exit of the “best and the brightest” – highly educated professionals, technology entrepreneurs, outstanding scientists, and scholars and graduate students who remain abroad because economic and social conditions in their country of destination are often superior to those of the home countries. The flight of valuable human capital implies losing, at least in part, the contribution of these elites to national development. Of course, this issue bears the critical question of why national governments are not able to offer better conditions for these economic elites – as well as workers and poor migrants – to remain at home (a topic discussed in greater depth in [Chapter 6](#)). In addition, the mechanism of migration releases national governments from the internal pressure of adopting adequate policies that would be conducive to prosperity and equality at home, making their national country an attractive place to live and work. Another largely neglected issue is the responsibility of the origin

countries to provide a degree of social and legal protection to their emigrant communities. Many governments in the south allocate only minimal budgets to their embassies and consulates for that purpose. Moreover, in several countries in the developing world, migrants cannot vote in elections in their home countries.

**g. Critical Theme VII: The Rise of Irregular Migration and the Fragmentation of Global Labor Markets**

As a consequence of the restrictions to legal migration and the strong demand for immigrant workers in recipient countries (this demand has been dampened by the global economic crisis of 2008–09) the reality of immigration in the early 21st century is the increase in irregular (or illegal) migration, that is, workers that reside and work in a recipient country without proper immigrant status and without labor rights. The issue is further discussed in [Chapter 3](#). The rise of irregular migration, perhaps representing between 10 and 20 percent of total migration worldwide, has various consequences for the recipient country, for the migrants themselves, and, indirectly, for the source countries. Irregular migration also has implications for the way in which international labor markets work. For recipient countries, irregular migration provides a source of cheap labor, a “reserve army” of workers that can provide needed labor power in construction, personal services, agriculture, janitorial and maintenance activities, food preparation and restaurant services, and other sectors of economic activity. In the economic jargon, irregular migration reduces “transaction costs” of hiring (foreign) labor by avoiding the paperwork associated with visas, formal contracts, legal permits, and social benefits. However, this reserve army of foreign workers in an undocumented immigration status represents a (often officially tolerated) breach of the laws of the host country. Also, irregular migration can provide tangible economic benefits to the immigrant, in a sort of spot job market, that offers jobs and salaries that can be several times higher (in comparable purchasing power) to those paid in the home country. However, the dark side of irregular migration is that it puts the migrant and his or her family in a legal limbo, a situation of fragility with respect to legal protection, access to social benefits, and labor

rights. Irregular migration brings fragmentation of global labor markets. Increasingly, in developed countries, there is a sort of dual labor market with a formal and informal segment. The formal segment of the labor market operates with native and foreign workers and employees working under a formal contract, with regulated working hours, under a regular visa status, often with some health benefits and access to social security. On the other hand, the informal market segment is characterized by (mostly) foreign workers hired without formal contracts in an irregular migrant status and without access to social benefits. As said before, this is a segment of cheap and flexible labor.

#### **h. Critical Theme VIII: A Multilateral Framework for Regulating International Migration?**

In the current process of globalization there is an “institutional vacuum” for international migration at the global level. In fact, while such international institutions as the World Trade Organization have a mandate about the rules governing the international trade of goods and services (despite the fact that trade in services affects migration), and organizations such as the International Monetary Fund (along with the main Central Banks of the largest economies) care about the stability of the international monetary system and global capital markets, there is no equivalent global institution regulating international migration. This is left largely to the individual countries that receive (and send) migrants and which define migration policies (or the lack thereof) more in terms of their internal politics rather than through an orderly, multilateral – or at least bilateral – process that sets migration flows subject to rules and standards. A global or regional framework of principles and rules governing the international flow of people simply does not exist, although a plethora of forums and global commissions on international migration have been created in recent years to try to inform the international community on the causes, consequences, and policy gaps in this vast area of international migration (see [Chapter 7](#)).

Furthermore, because immigrants are a diverse and fragmented group with little voice and limited political rights in the destination countries, an obvious collective-action question arises about who will represent

their interests on the global and national scene. The unfortunate reality is that most governments of developing (source) countries spend little time, effort, or money in protecting the political rights of their citizens abroad. High-income countries, in contrast, have developed more effective ways to protect their citizens (and certainly their investments) abroad. In turn, governments of destination countries, like any government, are concerned with remaining in power; accordingly, they need above all the votes of their nationals, many of whom hold anti-immigrant sentiments. Unless immigrants become citizens of the destination countries, they do not vote in national elections. Therefore, for many practical purposes, they are in “nobody’s land” (Chapter 2 discusses this issue in greater depth).

### 1.3 Setting the Stage: A Brief Tour of the Book

The heart of this book consists of five interconnected chapters:

- Chapter 2 addresses *why* people move – international differences in income and pay across countries, economic cycles, immigration policies, social networks, and the role of political and financial crises. It also addresses why they do not move. In addition, the chapter highlights the fact that other important dimensions in the decision to migrate – besides wage differentials – must be weighed, such as the availability of social services, the rights of immigrants at the workplace, the quality of cities (crime, pollution, and so forth), and the operation of democracy (or the lack of it).
- Chapter 3 addresses *what happens* when people do migrate – the effects of international migration on economic development in origin and destination countries and globally, interactions between international labor and capital markets, and the mutual causality between migration and international wage inequality and convergence. The chapter also examines evidence on the developmental impact of international migration – the impact on economic growth and the role of remittances and talent circulation.
- Chapter 4 examines *how* economic policy regimes – that is, regimes in which international capital markets have interacted with political events – in the past 100–150 years have affected international

migration. The four periods are (1) the first wave of free-capital, free-trade globalization in late 19th century to 1914; (2) the inter-World War period of restricted trade, disorderly capital markets, and rising nationalism; (3) the post-World War II Bretton Woods system of fixed exchange rates, reconstructed trade, and limited capital and people mobility; and (4) the post-Bretton Woods system of increased capital mobility, increased economic liberalization, generally flexible exchange rate systems, and rising international migration, both legal and “illegal.”

- **Chapter 5** focuses on Latin America as a “microcosm” for *why* people migrate (again, the determinants), showing how a region of volatile development, particularly in the mid- to late 20th century – a period characterized by recurrent macroeconomic and financial crises, erratic growth, and frequent political crises – led to pressures for emigration, chiefly to the United States and, since the 1990s, to Spain and some other European countries. The chapter also shows empirically that persistent or ever-widening developmental gaps between the region and main destination countries (the United States, Canada, Spain, and others) account for the direction of migration from Latin America to these regions. It also shows how frequent growth crises along with political crises were a driving factor for migrants, and how internal diversity in developmental levels helps explain intraregional migration.
- **Chapter 6** examines *who* migrates – particularly the migration of highly knowledgeable, well-educated, and entrepreneurially oriented people. It discusses the peculiarities of this type of migration, their more favorable immigration regimes, and their potentially large impact on recipient countries and global development. It also shows some special features of international markets for talent that differentiate it from other labor markets.
- **Chapter 7** advocates for a global social contract on migration and brings together critical issues and conclusions to remind the reader of the salient points about international migration, particularly regarding the “management” of international migration and the various responsibilities that can be envisaged for source and destination countries. In doing so, it sheds light on the purpose

of undertaking these lines of research, provides some messages about critical issues that should be considered in any debate about international migration, and concludes with reasonable optimism that the inevitability of the international migration phenomenon will bring rewards to all players – origin countries, destination countries, the global community, and, of course, the international migrants themselves. However, at the same time the chapter alerts us that international migration cannot continue to be a fragmented process of international mobility of workers and elites with separate circuits of regular and irregular migration in a segmented and unequal global economy. The chapter offers some concrete recommendations on how to structure a better, more effective, and more human regime of international migration.

## TWO

### Why People Move or Stay Put: International Migration Is the Result of Compelling and Conflicting Factors

People migrate from one nation-state to another, the nation-state being the natural, defining point of origin and destination for international migration flows. Nations are defined by borders, history, culture, legal systems, language, standing national armies, and national currency. Thus, if the number of nation-states increases over time – as it has in the 20th century, growing from 74 countries in 1946 to 192 United Nations–member countries in the early 21st century<sup>1</sup> – the nature, characteristics, and direction of international migration flows will shift. In fact, some migration that was formerly *internal* has become *international*, because many more countries have divided in the past few decades than have unified. Thirty-three new countries were created after the collapse of the socialist block in Eastern Europe and the former Soviet Union in the late 1980s and early 1990s. And, although East Germany and West Germany unified in 1990, Czechoslovakia split into the Czech Republic and Slovakia in 1993, and Yugoslavia split into Bosnia, Croatia, Macedonia, Serbia, Montenegro, and Slovenia in the early 1990s. With the disintegration of the former Soviet Union, 15 new independent states were created that were once former Soviet republics. The increase led to a surge of between 5 and 10 million “international” migrants among former Soviet republics, according to the World Bank.<sup>2</sup> Historically, as we will show in [Chapter 4](#), *major wars* and the *dissolution of empires* have

<sup>1</sup> The U.S. State Department recognizes 194 independent states. The member countries of the United Kingdom – England, Scotland, and Wales – are not independent states, nor are Puerto Rico and other territories.

<sup>2</sup> Ratha and Shaw, 2007.

been the turning points for changes in the number of countries. After World War I, for example, the Austro-Hungarian Empire, the Russian Empire, the German Empire, and the Ottoman Empire all disappeared in their original forms, leading to the formation of new states and to several important population movements.<sup>3</sup> These redefined national borders have had economic and political consequences that have spanned decades.<sup>4</sup>

Of course, the dissolution of empires is just one of the determinants of international migration – one in which a changing geopolitical landscape yields up the movement of people simply because borders change and nation-states evolve. In fact, decisions to migrate internationally reflect a complex interaction between external forces (whether at the national or international level) and individual preferences (whether at the personal or family level). In addition, these external and individual preferences can be reduced further into three “volitional” reasons that people decide to migrate:

- They migrate voluntarily (albeit this is also contested) because economic conditions, living standards, and personal conditions at home are not as desirable as those abroad. Typically, economic

<sup>3</sup> The Austro-Hungarian Empire, which was founded in 1867 and was dismantled after World War I, included not only Austria and Hungary but also parts of the Czech Republic, Poland, Italy, Romania, and the Balkans. The Ottoman Empire, which originated about 1300, expanded to include parts of what are today Russia, Turkey, the Balkans, Hungary, North Africa, and the Middle East. The Ottoman Empire was dismantled in 1923 when the republic of Turkey declared independence from what remained of the original empire. The Russian Empire lasted from 1721 to the Bolshevik Revolution of 1917, and then underwent a major political change that inaugurated the first communist regime in the world, which, in turn, lasted until 1991. The German and Prussian Empires were major powers in the 18th and 19th centuries, but they dissolved in the early 20th century. The point is that geopolitical configurations tend to dismantle and re-form after world wars, and that war in general (the Vietnam War, the Iraq War, the Afghanistan War, and many other conflicts) propel emigration from conflict countries, where internal displacement at the start is followed by international migration.

<sup>4</sup> Not all of these changes have an external origin. In the late 20th century, for example, the dissolution of the Soviet Union was more the result of an internal implosion rather than the result of external war, although the intervention in Afghanistan in the early 1980s probably contributed to undermining the declining USSR morally and financially.



migration is driven by the expectation of higher wages and incomes abroad than at home.

- They migrate voluntarily because they are lured by the attractiveness of a more cosmopolitan, academic, or professional environment abroad.
- They migrate compulsorily because financial crises, political turmoil, or pogroms dictate that they do so.

In short, international migration is a barometer that measures economic, social, and political conditions in both origin and destination countries. Prosperity, economic opportunity, political stability, security for people and property, and a tolerance for diversity and freedom invite people to come to a country. Poor economic performance, high unemployment, much “red tape” and bureaucracy, and ethnic or religious persecution discourage people from remaining in their own countries. In addition, international migration is an internal barometer that signals a person to move to a place where his or her family will benefit from greater income back home (from remittances), or where his or her family and friends might also be located (social networks).

But, in fact, these national and internal barometers are not as simplistic as some would think. For example, many economists have long pointed out that the primary determinants of *voluntary* migration lie in the economic gains for the migrant and his or her family. These economic gains are often approximated by wage and income differentials, in comparable currencies and purchasing power, between the origin and destination countries. These claims are valid but must be qualified, since several other important factors, ranging from the availability of social services and housing, to personal safety, rights in the workplace, and other indicators of the quality of life and “human development,” are also part of the decision to migrate “voluntarily.” In addition, the attributes of and gains from migration are probably filtered by the educational and socioeconomic status of the migrant – that is, *workers* who migrate might be less demanding (because of the pressure to earn a salary) than *elites* who migrate.

## 2.1 Cross-Country Income Differentials throughout the World Are Wider than Ever

Globalization is bringing prosperity, new products, technological advances, and closer connections among people to many parts of the world. However, the new prosperity is not distributed uniformly across all nations and regions. According to existing statistics, international differences in per-capita income levels among countries a century or so ago were on the order of 1 to 6 or 1 to 8. In the early 21st century, these differences in per-capita income levels are much larger, on the order of 1 to 20 or 1 to 30 (Bourguignon and Morrison, 2002; Pritchett, 2006). Thus, some regions and countries have a per-person income level that is several times higher than in other countries (e.g., in 2005, per-capita income, in purchasing-power parity, of high-income OECD countries was US\$33,600 compared to US\$9,200 in Eastern Europe and Central Asia, US\$8,200 in Latin America and the Caribbean, US\$6,200 in the Middle East and North Africa, US\$3,900 in East Asia and the Pacific, US\$2,100 in South Asia, and US\$1,700 in Sub-Saharan Africa).

Clearly, we are living in a world that is much more *income imbalanced* than it was a century ago. These “developmental gaps” – vast differences in per-capita income, the quality of jobs, and technological and institutional capabilities throughout the world – are critical factors driving international migration from low-wage countries to high-wage countries (or from developing and newly industrialized countries to advanced countries).

Some numbers illustrate this point. Per-capita income in the United States in 2000 was US\$34,500; in Mexico, it was only US\$9,700 (with equivalent purchasing power). Thus, Mexicans who are willing to migrate have, apparently, a huge economic incentive to cross the U.S. border, on the order of US\$25,000 per year. However, differences in average per-capita income among countries may *overstate* the actual income gains to migrants by two to three times (Hanson, 2008). We need to compare individuals with equivalent levels of education, experience, and other individual characteristics (provided they can be observed). When these corrections are made, the estimated gain to migration from Mexico to

the United States falls from US\$25,000 to US\$10,000.<sup>5</sup> Even making these corrections, however, the gains to migrants are very sizeable.

Per-capita income differentials – the developmental gaps – are an important (but not sole) determinant of migration from the developing world to the advanced world – the so-called “south–north” migration. However, per-capita income differentials across countries also drive “south–south” migration. Chile, for example, after two decades of relatively rapid growth since the mid to late 1980s, has experienced an increasing inflow of migrant workers (nannies, construction workers, and others) from Peru – a country whose per-capita GDP is around US\$8,000 (although Peru has been growing at rates of more than 7 percent annually in part of the 2000s). In contrast the per-capita GDP of Chile is about US\$14,000 in the late 2000s. (Box 2.1 mentions econometric evidence on the effects on migration of wage differentials) Similar differentials are observed in Africa, Asia, and other developing regions.

### **Box 2.1 The Role of Wage Differentials Then and Now**

Immigration experts Timothy Hatton and Jeffrey Williamson (2002; 2005) provide econometric evidence that international differentials in real wages (or differentials in per-capita income) were a key determinant of the massive flows of net international migration from Europe to the United States, Canada, Australia, Argentina, and New Zealand in the second half of the 19th century and early 20th century – the so-called “age of European mass migration.” Similarly, studying the determinants of world migration with panel data from a sample of 80 countries between 1970 and 2000, Hatton and Williamson (2002) found that intercountry differentials in per-capita income between origin and destination countries nearly a century later are a highly (statistically) significant determinant of international migration flows. This finding supports the notion that developmental gaps among countries are driving international migration flows. Still, as we shall see, other important economic and noneconomic considerations also have an important influence on international migration.

<sup>5</sup> Hanson (2008) and Clemons, Montenegro, and Pritchett (2008).

A sample of well-known “migration corridors” continues to underscore the importance of income differentials as the primary impetus for migration flows – Mexico to the United States; Bangladesh to India; Turkey to Germany; India to the United Arab States; Philippines to the United States; Bolivia to Argentina; the United Kingdom to Australia; Cuba to the United States; and Canada to the United States.<sup>6</sup>

## 2.2 People Need to Make More Money for Their Families: Remittances That Are Sent Back Home

Although “remittances” are discussed more fully in [Chapter 3](#), it is important to recognize that they are a major reason that people move abroad. Many migrants (particularly young migrants) travel to destination countries along, leaving their immediate families at home. The income they earn abroad is spent on the necessities of living, but often a fraction of it (typically 10 to 20 percent) is remitted to their families, which is especially true of poor to middle-income families. From an economic and risk diversification perspective, remittances can serve as an intra-family “co-insurance strategy” in which families in the origin country “send” the most educated, most productive, or most physically able member abroad to higher-wage, better-employment countries as a way to enhance family incomes. In financial terms, this strategy is equivalent to *risk diversification*. As discussed in [Chapter 5](#), migrants also send money home for other motivations such as *altruism* and *family investment*.

<sup>6</sup> Spaniards and Italians migrated in large numbers to Argentina at the end of the 19th century until the mid-1950s, a flow that eventually declined and then reversed direction. Part of the incentive to emigrate was that, on average, Argentines had a per-capita income level that was about 35 or 40 percent higher than in Spain and Italy in those years, although that differential was declining in the second half of the 20th century as economic growth in Argentina lagged and incomes started to rise steadily in Spain, Italy, and other European economies that had been destination countries for migrants previously. Since the 1960s (significant) European migration to Argentina has virtually stopped, and Argentines have continued to migrate to Spain and Italy.

### 2.3 Immigrants Want a Better Standard of Living: Social Services, Safe Communities, Healthy Environment, and Overall Security

Economists highlight the importance of wage and per-capita income differentials among countries as the main factor driving international migration flows. Econometric testing of equations (functions) of international immigration often shows a significant positive effect of a wage gap or per-capita income gap on net migration flows.<sup>7</sup> However, other evidence on motivations for migration (including domestic or internal migration), such as personal interviews and surveys, tends to tell a fuller story, or at least to qualify the overriding importance attached to wage differentials. For example, in the United States, an analysis of the motivations of people for moving across cities *within the country* based on the U.S. Census of 2000 found that the main reason that people move is *housing*.<sup>8</sup> The desire to buy (or rent) a better and larger house at a more convenient price and under better financial terms is the primary motivation for people to change their place of residence. Interestingly, the study shows that work-related factors (pay and career opportunities) are the third most important reason for moving, with family-related reasons second in importance. Another finding is that people with higher education tend to move primarily for work-related factors.

As important as income differentials are, they are not the complete story. In choosing to migrate and deciding to stay or to return to the home country (or move beyond to a third country), people may look at various factors other than wage differentials. Although the relative weight of the different factors varies according to the educational level of the migrant and his or her socioeconomic status (workers versus elite migrants), the following list of relevant factors would include what anyone would consider important in his or her decision about where to live and work (whether in another region of the same country or in a foreign nation):

<sup>7</sup> Hatton and Williamson (2002).

<sup>8</sup> Florida, 2008; and Schachter (2001).

- Salary levels and career possibilities
- Job security
- The availability of social services, such as health, education, and public transportation
- Access to housing
- Quality of the environment in urban areas
- Incidence of crime in urban areas and public safety in neighborhoods
- Availability of cultural activities and entertainment
- Quality of family and workplace relationships, and the capacity and willingness to adjust to a foreign culture
- Overall sense of identity and belonging
- Tolerance for diversity and a degree of respect for the civil and labor rights of nationals and foreigners
- Overall quality of democracy

To poor, working-class migrants, the list may seem to be a rather sophisticated list of attributes, when the reality for many of these international migrants is that they leave their home country out of dire economic need, not as a result of a rational choice among all of the factors that a new location may offer. However, the list is still a relevant accounting of features and attributes that countries, cities, or companies may want to consider if they wish to attract people to live and work there – particularly professionals, intellectuals, and investors (elite migrants), who are certainly more demanding in what they want to see in their new place of destination. Even worker migrants who start off poor in the destination country may, over time, become middle class and may look beyond only salary differentials in their location decisions. Moreover, many poor migrants may believe that by moving to another country, the real improvement in their standard of living will be a higher quality, more accessible education for their *children*. Better education will be a key consideration for their children's upward social mobility and enhanced earning capacities in their adopted country. Thus, for these migrants, the welfare and opportunities of the "next generation" become more important than the welfare of the current generation in the decision to migrate.

## 2.4 Communal “Ties” May Precede Economics in the Decision to Migrate

Family, social, ethnic, and professional *networks* play a role in the decision to migrate by serving as founts of information about job opportunities and what the destination country offers, and by providing personal and moral support to help immigrants adjust to a new life in a foreign milieu. Migrating to another country to find a better job than is available at home is obviously not the same as moving from one job to another in the same city or the same country. The language and culture are different, and information about jobs, pay scales, and local rules and laws is not readily accessible to foreigners, particularly given current prejudices against immigrants. In economic terms, these factors are a “cost of moving,” because they increase the difficulties of adapting to a new economic and social framework. In short, international migrants tend to attach a high value to the existence of networks of friends and relatives (or “contacts”) in deciding to migrate to a specific destination country. According to an article in the *Economist* (2002):

Almost everywhere, the biggest group of immigrants *consists* of relatives of those who have already arrived. In the United States they account for three-quarters of all legal permanent migrants. In parts of Europe, family reunification has become family formation. (“The Longest Journey: A Survey of Migration,” *The Economist*, November 2, 2002, U.K.)

Economists have in fact suggested that these international communal ties lead to “persistence effects” in migration flows (or stocks) over time, where origin countries from which large contingents of migrants have historically moved abroad to specific destination countries – for example, Irish and Salvadorans to the United States, Britons to South Africa, and Italians to Argentina – are more likely to see a reverse (“networking”) flow of these same migrants in the future. This direction may also be opposite: In the early 21st century, many Argentineans migrated to the “origin” countries of Spain and Italy after the last economic crisis in Argentina (2001–2002), testifying to the bonds among ex- and repatriates. The fact that Argentina was a destination country for Spaniards and Italians since the mid-19th century until the 1950s helped

to create bonds of familiarity between the nationals of both countries, thus facilitating migration in both directions.

## 2.5 Beyond National Comparisons: Buoyant Cities and Mega-Regions Attract Migrants

Thus far, the analysis has concentrated largely on *national* differences in economic conditions and living standards as factors that drive international migration flows. However, national averages mask important differences among cities and regions within and across countries and regions. Urban economist Richard Florida (2008) has identified regions of the world that generate substantial economic activity, contain large concentrated populations, and, more importantly, offer an attractive milieu for creativity and innovation, leading to good jobs and interesting entrepreneurial possibilities. Florida shows, for example, that greater Tokyo and the mega-region stretching from Boston to New York to Washington, D.C., have an economic size that is approximately equal to Germany. Thus, certain cities and regions in the world are far greater in economic size than many countries, and thus constitute economic powerhouses that attract people from inside and outside their national frontiers. These locations are becoming main actors in globalization, although we still think largely in terms of countries and national governments. Economic geographers show, in particular, that if population and economic activity are concentrated, innovation is even more concentrated. We live in a “spiky world” rather than in a “flat world”<sup>9</sup> along several dimensions, such as output, population, innovative capacities, creative impulses, and so forth. Florida also identifies the main innovative centers as the metropolitan areas around Tokyo, Seoul, New York, San Francisco, Boston, Seattle, Helsinki, Taipei, Bangalore, Beijing, Hyderabad, and others. But cities in developing countries are themselves offering significant innovative capacities: Bangalore produces as many commercial patents as Syracuse, Beijing as many patents as Seattle or Phoenix, and Shanghai as many patents as Toronto or Salt Lake City. These regions and cities are magnets for international (and internal)

<sup>9</sup> See Friedman (2007) for elaboration on the theory of a “flat world.”



migrants, and explain the rise of both south–north migration and south–south migration.

The world map of economic activity and innovative capacities is not distributed uniformly. Many cities and regions in both advanced and developing nations have decaying cities and languishing regions that offer no attractive economic possibilities. In this context, we should expect that people will move away from decaying urban or rural centers, leaving places of despair and frustration, and go to dynamic and flourishing cities and regions that offer creativity and opportunity.

## **2.6 Economic and Financial Crises in Developing and Wealthy Nations Are a Macroeconomic Catalyst for Migration Flows**

This book emphasizes the importance of developmental gaps in driving migration flows, although we are alert to the need for a broad outlook of what development and quality of life really means, and the variety of factors that people consider in their location decisions. Developmental gaps are often measured for statistical and *aggregate* analysis and often reflect medium- to long-run factors – such as productivity, the capacity and quality of institutions, the educational levels of the population, and other factors. However, more immediate factors of a macroeconomic nature – sudden, volatile economic, business, and financial troughs in both origin and destination countries – also make migration flows a necessity. Globalization and financial deregulation have also increased the frequency of economic and financial crises in the past quarter century. The examples are glaring: the debt crises of Latin America in the 1980s, Turkey and the Philippines in the 1990s, Mexico from 1994 to 1995, East Asia in 1976, Russia in 1998, Ecuador in 1999, Argentina from 2001 to 2002 and Turkey again in 2001. In several of these crises, the migration of nationals was an escape valve for economies that were shrinking, that saw jobs being cut and real wages declining, and, in several cases, that contained a middle class that lost their deposits and part of their savings in banking crises. Surprisingly enough, however, these typical signs of economic and financial crisis in the developing world are now rocking the richest and most prosperous country in the world – the United States – and this crisis has also spilled

over to affect the United Kingdom, Spain, Baltic countries, Greece and some Central-Eastern European countries. In 2007– and early 2008, the United States suffered a serious crisis in the real estate sector, bankruptcies in retail chains and uncertain prospects by consumers and investors. This situation turned into a full-blown banking and financial crisis in 2008 and a severe contraction of economic activity in 2009, such that many observers put its severity comparable to the crash of 1929 and the ensuing economic depression of the early 1930s. Although the process is still unfolding at the time this book was written, the crisis is leading to a slowdown of immigration to the United States and to Europe, and is also eliciting some but not massive return migration as sectors such as construction and other areas of economic activity that constitute sources of demand for immigrant workers contract, thereby cutting jobs and depressing wages of immigrant workers that are also forced to send fewer remittances back home. In fact, we have seen a leveling off and even a some decline in the growth of remittances to Mexico and other Latin American countries, as well as to other source nations that provide immigrants to Europe.<sup>10</sup>

Economic and financial crises have destructive effects: job loss and unemployment, the bankruptcy of firms with an ensuing loss in organizational and productive capital, a decline in the value of national currency against other currencies, a loss of savings in financial institutions, and a scarcity of credit for financing consumption, mortgages, and business investment. The impact on migration flows can be immediate: If a crisis that is not generalized across many countries hits a net emigration country, emigration flows will step up, leaving people of various skill and educational levels with little choice but to seek opportunities elsewhere. If the country is a *recipient* of immigrant, job losses and lay-offs can reduce immigration and/or encourage immigrants to return home.<sup>11</sup>

<sup>10</sup> For Latin America, see MIF-IDB (2008).

<sup>11</sup> Emigration or immigration offers an alternative for a person and his or her family to avoid the disruptive effects of economic and financial cycles, particularly those of large intensity and duration. Of course, as we shall see, this strategy has its associated costs, and the very poor and uneducated cannot always afford it. Hanson (2007) even provides evidence that *illegal* migrants are more sensitive than *legal* migrants to the economic cycles in the destination country or to wage differentials between origin and destination countries. They work in occupations without contracts and in activities, such as construction, that tend to be particularly sensitive to economic cycles.

In the case of emigration countries, in Latin America alone (as discussed in greater depth in [Chapter 5](#)), Ecuador suffered a severe twin crisis in 1999 (a collapse in output and employment and in the banking system), with nearly 1 million people leaving that country in the following three years. And in the late 1990s, Colombia suffered its worst economic crisis in half a century (aggravated by an internal security crisis in the late 1990s and early 2000s associated with the conflict between the Colombian government and two guerrilla groups – FARC and the ELN<sup>12</sup> – with ties to narcotics trafficking), with nearly 2 million people leaving the country in a period of about five years, migrating primarily to the United States and Spain. As well, the financial crisis that hit several Asian economies and Russia in 1997–98 also had consequences to immigration and emigration patterns along with remittances payments to and from these countries.

## **2.7 Political Instability, Civil War, and the Dissolution of Empires Force or Compel People to Migrate**

Besides macroeconomic and financial crises, political and civil factors have historically led to waves of emigration, most of the time of an involuntary nature (economic migration is often considered “voluntary,” although, as mentioned, the limitation of this distinction is apparent, since economic migration can be also involuntary). A variety of political-economic contexts can compel emigration ([Box 2.2](#) provides a take on political and economic choices and action):

- Authoritarian and semi-democratic regimes prevailing in origin and destination countries can make them less secure, due to a lack of respect for civil and political rights, a weak rule of law, arbitrary detentions, and the absence of a free press
- Lack of respect for the economic rights of nationals and foreigners, such as property rights and contract enforcement

<sup>12</sup> The main guerrilla group is FARC – *Fuerzas Armadas Revolucionarias de Colombia* (Revolutionary Armed Forces of Colombia) – followed by the ELN – *Ejército de Liberación Nacional* (National Liberation Army).

### Box 2.2 International Migration: Economics and Politics

Albert Hirschman (1970), in his classic book *Exit, Voice and Loyalty*, draws a distinction – useful to understanding the economic and political causes of immigration decisions – between purely economic choices and collective action. While *exit* is often an economic decision, *voice* belongs to the realm of collective or political action. “Exit” can include a range of possibilities, from not buying a good in a store to leaving the home country. Thus, this framework can be applied to the study of international migration. It suggests that individuals who are dissatisfied or discontent with current political and economic conditions in their home countries, and where “voice” (political organization and collective action for change) becomes an *ineffective* expedient for change, may choose to exit their countries (i.e., to emigrate). This suggests a direct relationship between the emigration of nationals (and the repatriation of foreigners) and the existence of authoritarian regimes that suppress political rights and civil liberties. In a democracy, “voice” can also be an ineffective mechanism for influencing social and economic change, and “exit” (emigration) may be chosen by disaffected people.

- Civil wars, internal conflict, and ethnic and religious persecution – obvious pushing conditions for migrants

#### a. Recent History Provides Compelling Examples of Political Migration

A study of the reasons underlying international migration in Chile in the 1970s and 1980s found that while economic conditions (a lack of jobs and modest pay at home) were important factors behind the emigration waves of the 1970s and part of the 1980s,<sup>13</sup> family reasons and political considerations – in particular, the desire or need to escape the

<sup>13</sup> In the 1990s, Chile became a net immigration country from neighboring nations, and emigration fell drastically.

from authoritarian regime of General Augusto Pinochet – were also very important.<sup>14</sup>

Political upheavals, revolutions, regime breakdowns, and authoritarian rule (as in Chile in most of the 1970s and 1980s) have historically played an important role in driving migration – not necessarily forcing (compulsory) migration, but compelling people to migrate. In addition, racial, religious, and political persecution factors into the decision to leave the home country. And, if migrants wish to return home after emigrating, they want some degree of political stability and guarantees for their civil rights besides employment and economic opportunities. The evidence shows, however, that the longer the period of living in a foreign country after the traumatic experience of Civil War and internal conflict, the more difficult it is to return home. Contacts at home are severed, new families are formed, work ties are developed abroad, assimilation into the foreign culture sets in, and so forth.

The following illustrate concrete cases of “political migration” – flows of migration induced by wars, national crises, and the disintegration of empires – during the 20th century in different countries and geographical regions of the world:

- Pogroms and anti-Jewish persecution in Czarist Russia forced Russian and Ukrainian Jews to migrate to such countries as Argentina and Chile in the early decades of the 20th century.
- The end of the communist system in Russia in the early 1990s compelled emigration to Israel, Great Britain, and the United States, in addition to, as stated previously, the large movements of people among former Soviet republics. These flows were set in motion after political change took place, even though the economic incentives to move existed long before.
- In the 1920s and 1930s, the emergence of virulent nationalism in Germany and anti-Semitic persecution led to significant emigration flows from Germany, Poland, Hungary, Czechoslovakia, and other states in the 1920s and 1930s.

<sup>14</sup> Solimano and Tokman (2008).

- Countless revolutions in the world have often been followed by the emigration of the defeated groups. The crushing of the Hungarian revolution by Soviet forces in November of 1956 led approximately 200,000 Hungarians to leave the country and migrate to other countries that would offer more individual security, freedom, and prosperity.
- In Latin America, massive emigration of upper middle class and high-income groups from Cuba took place in the early 1960s and from Nicaragua and El Salvador in the 1980s, fleeing revolution and internal war in these countries.
- In Africa, one example of migration flows after wars of independence and decolonization is the return migration of Portuguese who returned home from Angola and Mozambique after the independence of these former Portuguese colonies in the mid-1970s. The size of this return migration was large: 600,000 Portuguese returned home, representing around 7 percent of the total population of Portugal in 1974–76. Approximately 900,000 French-born expatriates also flew out of Algeria in 1962 after the country's independence, a population move of nearly 1.6 percent of the French labor force (Hatton and Williamson, 2006).
- The onset of military regimes in Argentina in the 1960s and 1970s, in Brazil in the 1960s and 1970s, and later on in Chile in the 1970s and 1980s – those that curtailed civil liberties and openly intervened in universities by suppressing academic freedom and slashing budgets – was followed by massive outflows of professionals and scientists from those countries, with serious brain-drain consequences. In these cases, emigration became an individual response to nondemocratic political regimes that failed to respect civic rights.

One last phenomenon about political migration should be mentioned – how “forced” immigration has had important economic gains for some countries of destination. For example, both the Chinese revolution of 1949 and the Cuban revolution of 1959 were followed by the massive emigration of the economic and business elites that held important influence and power in their countries before socialist revolutions took

hold. These expatriate economic elites were crucial to the economic development of destination countries and regions. This was the case in south Asian countries, such as Malaysia, Singapore, Indonesia, and others, where a diaspora of Chinese entrepreneurs was instrumental in the process of boosting economic development and wealth creation in these countries. In addition, the Cuban diaspora played an important role in the development of Miami and more generally Florida and other regions in the United States.

## 2.8 Why People Might *Not* Migrate: Migration Entails Financial, Family, and Social Costs

Migration and location decisions are among the most complex choices people and families make during their lifetimes. Unlike choosing between goods or financial assets, which is ultimately a choice of material objects, the place where people live and work is shaped by family history, social relations with friends and colleagues, and cultural and historical circumstances that affect the well-being and psychological balance of individuals and families. Therefore, *emigration to other countries also entails emotional (non-pecuniary) costs to the migrant*, such as the severing of contacts with family and relatives, and the emotional distress associated with leaving the home country. In addition, as previously mentioned, many international migrants often face several disadvantages in the receiving countries. Among these are the need to learn a new language and new socio-cultural rules, and eventually facing alienation from their cultural grouping at home.

Discrimination, xenophobia, or racism by locals can also be a serious problem in some immigration countries or even regions of migration within a country. These disadvantages can force skilled migrants to work outside their skill set in order to assimilate. For example, many U.S. immigrants with university diplomas in their home country find that their diplomas are not recognized in the United States and are forced to turn to less-skilled positions, such as taxi drivers, cooks, or factory workers, with a consequent loss in human capital and other negative externalities for the person and society. In addition, social costs related to externalities are associated with migration when

highly skilled individuals leave their home country. This subject will be discussed further in [Chapter 6](#) on the international mobility of talent.

Migrating also entails several monetary costs that are very relevant for poor immigrants: air or train tickets, shipping costs, legal costs, the costs of job search, and the opportunity cost of foregone earnings in the home country. In addition, illegal migrants may have to pay several thousands of dollars to “coyotes” or human-trafficking companies to get into the destination country. In certain locations, people risk (and sometimes lose) their lives in the attempt to cross national borders. This is an unpleasant side of globalization that shows that commodities and money have a safer niche in moving across national boundaries than do real people. Unskilled and very poor migrants are often so affected by the costs of traveling and finding a job in the destination country that they are discouraged from migrating despite the obvious necessity and/or desirability of doing so.<sup>15</sup>

## 2.9 Concluding Remarks about Why People Migrate

This chapter has discussed the *why's* behind the decision to migrate, including, prominently, the importance of developmental gaps and of wage and income differentials. However, other reasons factor into the equation, including such nuances as the availability of social services (education, health services, and public transportation), the existence of crime, the degree of public security in cities, the environment, and the quality of democracy. People are also attracted by large, cosmopolitan settings that offer opportunities for pursuing creative interests and innovative avenues of business, whether movement is internal or international. As the chapter has highlighted, decaying regions, more extreme forms of social disarray and destruction (such as Civil Wars, revolutions, wars, and authoritarian regimes), and macroeconomic

<sup>15</sup> Immigration experts Timothy Hatton and Jeffrey Williamson attribute the low rates of emigration from Africa – despite “emigration fundamentals” that would call for much larger emigration flows from Africa than observed – to the fact that the costs of migrating are simply too high to be afforded by very poor African migrants. Of course, the existence of immigration restrictions also prevents African emigration.



and financial crises can be powerful forces compelling and inviting emigration.

In the next chapter, we discuss what happens to origin and destination countries when these various determinants prompt people to decide to migrate, particularly several theoretical dilemmas about the effect of their movement on economic growth, including the money that migrants send back home.

## THREE

### What Happens When International Migration Happens? The Dilemmas Posed by Migration

Chapter 2 examined why people migrate. But what happens in origin and destination countries when they do? In the United States, a larger voice calls for restricting immigration and certainly eliminating illegal migration. But perhaps a “silent” majority – business owners and the service industry, in particular – have the opposite desire. And what would happen to an economy if it did not have a pool of cheap labor, or, conversely, access to the creative, technological, and entrepreneurial talents of an intellectual elite that is not homegrown? On the other hand, what happens to origin countries when a labor or talent pool leaves? Of course, origin countries may see migration as a blessing if its labor supply can be absorbed only so far in their economies, but a “brain drain” may harm the prospects for an origin country to climb the developmental ladder.

Of course, a country may try to absorb labor and professionals by attracting foreign investment to create industry and jobs; theoretically, in countries with natural resources, investment would help them climb the developmental ladder. Similarly, the globalization process should be creating a more balanced playing field for all countries, where the movement of capital and labor should lead to a “convergence” of wage levels and rental rates of capital, thus, over time shrinking migration (and capital) flows. Obviously it has not. In fact, where wages are higher, people will be like moths to a flame. But does that mean that the high-wage destination country can keep an earner’s money in circulation in the recipient country? No, because an important flow of international money takes the form of “remittances” – money sent back home by immigrants, money that will be saved or spent but in the *origin* country.

The relation between development and migration is dynamic and changes over time as a country climbs (or descends) the development ladder. In general, an established empirical regularity is known as the “migration hump.”<sup>1</sup> This regularity is that countries in early stages of development tend to be net labor exporters to richer countries; however, as income per capita increases during the course of a country’s development, new job opportunities are created and higher wages are paid, thereby attracting migrants from lower-income countries and also encouraging return of nationals from abroad. Thus, these same countries become net importers of labor. This transition between the two migration regimes (from net exporters to net importers of labor) along the development path has been observed in several countries such as Spain, Italy, Ireland, South Korea, Taiwan, and Greece among others.<sup>2</sup> In turn, not all countries follow a linear, unstoppable path toward prosperity. As this book shows, Argentina is a country that traversed the regress path regarding (European) immigration: It was a net immigration country of European immigrants between the second half of the 19th century to the mid-20th century, to become later on a net emigration country to Europe, mainly during economic and political crisis in the last 40 years or so.

Migration, development, globalization are complex issues and involve several “dilemmas” that are examined in this chapter.

### **3.1 Dilemma I: Illegal Migration – A Conflict between Economic Logic and the Law? Does Economic Logic also Conflict with Immigrants’ Rights?**

We live in a world of rising illegal immigration. Estimates are that approximately 12 million foreigners live in the United States without proper immigration status (irregular, undocumented, or illegal migrants; see [Box 3.1](#)) and approximately 8 million illegal immigrants are in the European Union. Among developing countries the number of irregular migrants, albeit difficult to determine with accuracy, may be as high

<sup>1</sup> See Martin and Taylor (1996) and De Haas (2005).

<sup>2</sup> De Haas (2005).

### **Box 3.1 Illegal, Irregular, Undocumented, and Criminalized Migrants: A Word on Terminology**

We can distinguish among three types of migrants who are in a country without legal authority.

1. An “illegal” migrant may be somebody who crossed a national border without authorization and may be working in that country without the legal consent of the authorities of that country. Illegal immigrants are also sometimes referred to as “undocumented” immigrants.
2. An “irregular” migrant may be someone who entered a country legally – say, as a tourist – and then overstayed and took employment in breach of visa regulations or did not know where to extend a work visa. For years irregular immigrants pay taxes and are part of the community, even though their legal status as foreign residents is not fully regularized.
3. “Criminal illegals” refer to immigrants who engage in criminal and unlawful activities in a foreign country, or foreigners engaged in narcotics trafficking or illegal arms dealing. In addition, migrant trafficking for exploitation belongs to a broader realm of criminal activity.

It is apparent that the breach of law is different in each case. In cases (1) and (2), the problem is the lack of compliance with immigration laws. In case (3) the offense goes beyond immigration laws, and it is certainly a more complicated case.

as 40 million. Analyzing the choices facing the United States in dealing with illegal immigration, Gordon Hanson (2007), the Director of the Center on Pacific Economies of the University of California, San Diego, and immigration expert, warns:

It is critical not to lose sight of the fact that illegal immigration has a *clear economic logic*: it provides U.S. business with the types of workers they want, when they want them, and where they want them. If policy reform succeeds in making U.S. illegal immigration more like legal immigrants, in terms of their

skills, timing of arrival, and occupational mobility, it is likely to *lower* rather than raise national welfare. In their efforts to gain control over illegal immigration [U.S.] Congress and the administration need to be cautious that the economic costs do not outstrip the putative benefits.

This quote illustrates the conflicts among the economics, law, and politics of international migration. It is apparent that by being a *de facto* and not *de jure* regime, illegal immigration avoids the bureaucracy of visas, work permits, and authorizations necessary to hire foreign workers. The result, as mentioned in [Chapter 1](#), is a substantial reduction in transaction costs for employers, resulting in efficiency gains for them. Illegal immigration thus performs the role of providing readily available workers in a sort of spot market. However, this is not the only possible view of this process: While economists focus on transaction costs and efficiency, lawyers would point out that in a law-binding country, illegal immigration is a breach of law, and it is the obligation of any government and judicial system to enforce it. Economic gains cannot be obtained at the cost of violating the (immigration) laws of the destination country. Either illegal migration should be stopped (which may include the regularization of undocumented migrants and not necessarily their deportation), or immigration laws must be reformed, lawyers would point out. At the same time, not only are the laws of the destination country and transaction costs at stake, but so too are the rights and the social protection of the immigrant, which are often tied to citizenship and legal immigration status.

It is apparent that the *economic incentives* to migrate internationally collide with the *legal restrictions* on immigration and the forces behind the maintaining of these restrictions – for example, the labor unions in the destination country may pressure for more restrictive entry to reduce competition from foreign workers, and national and local governments may state their concerns about the pressure of immigration on social services, housing, and health and education systems. These concerns and pressures are particularly more serious in countries that have a large foreign population. In addition, public opinion is shaped with bias by media, politicians, intellectuals, and others. How we square the economic logic of the benefits of cheaper labor and lower transaction costs

with legal realities (that laws must be respected) and immigrant's rights is certainly a complex issue.<sup>3</sup> As discussed in [Chapter 1](#), migration policies in receiving countries are, at the end, a compromise between lawful migration along with restrictions for workers migration and implicit tolerance of irregular migration.

This dilemma concerning the economic logic of immigration and the respect for the law reminds us of the polemic about the direction of causality between economic structures (including incentives) and institutions (including, of course, the legal framework). In the 19th century, Karl Marx postulated the first line of causality: one proceeding from economics to law, values, institutions, and ideology. For Marx, the economic interests of the capitalist class and the necessity of maintaining the dynamism of capitalism require a certain economic and legal “super-structure” that protects property and provides legitimacy to a system based on private appropriation of profits and ample social differentiation. In this case, from an economic and labor-market perspective, immigration provides a modern reserve army of labor in the global economy that will accept comparatively lower wages, thereby supporting the accumulation of capital and help boost profits in mature capitalist societies that have an aging population and high-cost national workers. Other ways to boost capital profits in advanced capitalist countries subject to an internal scarcity of labor is through outsourcing and off-shoring; these will be explored later in this chapter.

In contrast, social scientist Max Weber (2000) in the early 20th century and neoclassic institutional economics à la North in the late 20th century reversed Marx's causality and postulated the primacy of institutions (including the legal framework) over economic outcomes. This literature often emphasizes transaction costs and property rights as critical factors that make institutions functional to a market economy. In this case, immigration reduces transaction costs, as discussed earlier, but it fails as a complete institutional solution if it is not also accompanied by some legal framework.

<sup>3</sup> Also, receiving countries may fail to make needed investments to increase productivity as they rely on cheap labor.

### a. How Effective Are Immigration Restrictions?

It is clear that illegal immigration is on the rise, if only because immigrants can get the jobs and are paid higher salaries than at home, and can send more money back home than could be earned by staying in the origin country.

The ineffectiveness of restrictions on immigration is shown – powerfully – by the rise of immigration in the United States. In 1996, the number of illegal migrants was assessed at nearly 5 million; 10 years later, it had risen to around 12 million. The number has more than doubled in just one decade or so. Some (conservative) estimates put the number of illegal immigrants, globally, at approximately 22 to 24 million, with between 4 and 7 million in the European Union, 12 million in the United States, and between 3 and 8 million in other countries, including developing nations.<sup>4</sup> However, this is probably a lower bound. Other estimates yield far greater numbers for illegal migration in developing countries: India alone would have around 20 million irregular migrants and the Russian Federation between 3.5 and 5 million, most of them coming from former Soviet Republics and Southeast Asia. It is estimated that there are over 1 million each in Thailand, Malaysia, South Africa, and the Gulf States.<sup>5</sup> If we add these numbers, we approach the global number for illegal migrants of between 35 and 40 million.

Illegal immigrants tend to have the lowest educational levels and to concentrate in such occupations as construction, cleaning services, agriculture, and food preparation. Of course, illegal immigrants are second- or third-class citizens with limited rights, poor social protection, and substantial economic insecurity. Again, this shows the trade-offs between economic efficiency and social exigencies facing immigrants.

As a response to the rise of illegal immigration, primarily from Mexico, the United States has increased its expenditures on policing the border with Mexico and built a long wall between the two countries. However, economic incentives for migration from Mexico to the United States can be very powerful ([Chapter 2](#)), and the wall might well be an

<sup>4</sup> Duvell (2006).

<sup>5</sup> Report of the Global Commission on International Migration (2005).

ineffective way to stop immigration flows from Mexico to the United States. In fact, these incentives must be particularly powerful considering that illegal immigrants face the cost not only of losing their country, but also of being displaced in the country in which they have chosen to reside and work.

### b. All Immigrants Face a Marginalizing Set of Rights

As mentioned, the political, economic, and social rights of illegal immigrants are often unprotected (although, in some cases, they receive welfare transfers and have access to health services and education in the destination countries). But all immigrants, whether legal or illegal, face a different set of rules and barriers than do citizens. In a world of nation-states, individual rights are fundamentally tied to citizenship and nationality (Box 3.2 shows four pathways to citizenship). The rise of migration poses obvious challenges to a world organized by sovereign states with a monopoly on nationality rights, but also in which territories of birth and people's current residence do not match one to one. Although motivated at that time not by globalization but by the horrors of World War II, in which nationalism, xenophobia, and ethnic hatred led to massive crimes against humanity, the United Nations put forward a "universal declaration of human rights" in 1948, specifying a set of rights to which any individual is entitled, independent of his or her nationality – a concept that was later extended to social and economic rights. Civil and political rights include the right to elect public officials and representatives and to be elected to public office, to hold constitutional and democratic rights (such as freedom of speech, the right of association, and property rights), and to be entitled to transfers, such as public health care and education, among others. Social and economic rights, in turn, refer to the right to choose educational and health services, to have access to infrastructure services (including basic water), to be protected against negative economic shocks, and to warrant emergency relief in natural disasters.<sup>6</sup>

<sup>6</sup> A new development in legal theory for a global economy is referring to "transnational citizenship," although this concept has not yet been implemented in practice.



### Box 3.2 Pathways to Citizenship

A person can acquire citizenship according to the following criteria:

1. **Birthplace** (*jus soli*): citizenship is obtained by being born in the territory of a certain country.
2. **Descent-based** (*jus sanguinis*): citizenship is obtained by being a descendent of a parent or other distant relative of a certain nationality.
3. **Marital status**: citizenship is obtained through marriage to a national of a certain country.
4. **Resident status**: citizenship follows past and present residence in a certain country.

The British tradition of *jus soli* was transferred to its former North American colonies (the United States and Canada) and to Australia, Ireland, and South Africa. Today, the United States stands as the country with the strongest *jus soli* tradition, following its status as a “nation of immigrants.” In turn, during the 19th century, countries that adopted a *jus sanguinis* pathway to citizenship were Austria, Belgium, Spain, Prussia, Russia, Italy, the Netherlands, Norway, and Sweden (Weil, 2001). In general, “countries of emigration,” such as Israel, Russia, Germany, and others, tend to adopt systems with elements of *jus sanguinis* for the descendants of their nationals living abroad. A case of *jus sanguinis* is Germany, self-described as a “nonimmigration country.”

As we will also discuss in several chapters of this book, the rules facing all immigrants are not the same. For example, the speed with which working visas, resident permits, and citizenship can be obtained is certainly influenced by the socio-economic status and the education and expertise of the immigrant. Outstanding professionals and scientists, along with prominent investors – elite migrants – often obtain residence status and citizenship in destination countries much more quickly than do workers and poor immigrants. The road to citizenship and legal residence in some receiving countries is not easy: Although migrants may

pay taxes in the destination country, it does not entitle them to vote, although a record of paying taxes can facilitate the road to citizenship or legal resident status.

The ability of immigrants to enjoy such social rights as access to public schools, public health, and social security varies from country to country, and depends also on whether migrants have legal contracts, proof of residence, and other documentary evidence. In short, poor and low-skilled immigrants and illegal immigrants are a relatively marginalized group, more exposed to social risks than elite migrants, who as professionals, investors, and others can cope with health-related contingencies and with job-related and other forms of social risks through their own savings, private health insurance, private retirement schemes, and other market-based instruments.

### 3.2 Dilemma II: Does a Country Export People or Import Capital? Or Do People and Capital Move in Tandem?

The literature on the relationship between international trade in goods and services and migration has focused, traditionally, on whether trade and migration are complements or substitutes. Does a labor-abundant country export goods that are labor-intensive or “export” people directly as immigrants? The relationship between trade in *goods* and the international mobility of people has been studied much more than the relationship between the international mobility of *capital* – from financial assets to foreign direct investment – and the international mobility of *people*. A country may expect to “solve” its internal employment problems either by allowing foreign investment to come in (in the hope it will generate enough jobs), or by allowing people to migrate (to release the pressures on internal labor markets coming from an excess supply of labor relative to the demand for labor) to countries where capital is abundant but labor is scarce. In practice, however, it does not always work that way: the signing of the North America Free Trade Agreement (NAFTA) among Mexico, the United States, and Canada in 1994 entertained the hope that migration from Mexico to its affluent neighbors in the north would be stemmed by a greater flow of U.S. and Canadian companies to Mexico that would

provide jobs to locals. In fact, the liberalization of foreign investment regimes in Mexico that accompanied NAFTA negotiations was oriented toward helping Canadian and U.S. companies capture relatively lower wages in Mexico. That was expected to reduce incentives for Mexicans to migrate to the United States and Canada. However, the size of the developmental gaps and wage differentials between the United States and Canada on the one side and Mexico on the other was and remained of such magnitude even after NAFTA, that the result was that labor from Mexico kept going to the higher-wage countries, chiefly to the United States, with part of it as illegal immigration. After NAFTA was signed, the flow of foreign investment to Mexico was far too small to produce any sizeable decline in Mexican immigration to the United States; in actuality, Mexican immigration to the United States has increased over the past ten years or so. The dilemma of capital going to where (cheap) labor is available versus labor going to where the jobs, higher wages, and capital are available was tilted toward the second option.

Traditional trade theory developed by Swedish economists Eli Heckscher and Bert Ohlin (Ohlin, 1933) did in fact suggest that capital and labor move in *opposite* directions. This model assumed that only labor, capital, and technology (and not natural resources) are mobile across countries. In this context, a low-wage country may attract capital that seeks to take advantage of low labor costs. For example, besides the Mexican example, American companies in the past one or two decades have been very attracted by the lower labor costs in China and other South Asian countries, which would be necessary to set up manufacturing operations and export goods to international markets at lower cost and higher profits. This raises an interesting point: In a world with very large differences in labor costs and wage differentials, and in which capital is internationally mobile, it may be impossible to avoid outsourcing and the flight of jobs to low-wage countries and, *at the same time, to maintain immigration restrictions*. Increasing immigration restrictions makes it more difficult for foreign labor to come into labor-scarce countries; the direct consequence is to make labor more scarce and expensive (even with illegal immigration that is not a relevant option for highly skilled immigrants). In turn, high labor costs at home are the very factor

that encourages companies to set up operations in (or to outsource the production of parts and inputs to) low-wage countries.

Besides this opposite movement of labor and capital as illustrated here, history and recent experience suggest that in many cases, both labor and capital flow *in tandem* to countries that offer new economic opportunities, or escape in tandem from countries plagued by economic and political instability. We may identify at least three factors, not necessarily operating in the same direction, that can lead to a joint movement of capital and labor across countries:

- a. Instability
- b. Economic opportunity
- c. Natural resources

#### a. Instability

Instability can be a deterrent to – a kind of tax on – the international mobility of people and capital. Instability has various sources. One is macroeconomic instability, such as inflation and exchange-rate volatility, which make the price signals that convey information about capital profitability and wages noisier and less predictable. Under normal conditions, capital will prefer countries with more stable macroeconomic frameworks. However, this may be more relevant for foreign direct investment in which physical investments, once undertaken, cannot be undone at a reasonable cost. In contrast, speculative short-term capital flows go to unstable countries that have distortions and that suffer from macro-instability, taking advantage of low asset prices or very high interest rates – businesses can make big profits in short periods by “attacking” unstable economies.

Fiscal deficits are another source of instability, inviting future increases in taxes and corrective fiscal policies that can harm the profitability of capital investment and also reduce employment prospects. In this case, both labor and capital may decide to leave a country. Argentina in the 1970s, 1980s and again in the early 2000s and Russia in the 1990s are examples in which economic instability led to people and capital flows, although in this case political instability and/or authoritarian regimes

contributed to the flight of workers and intellectuals. Still other sources of instability can be the “rules of the game” governing investment regimes and property rights. In this context, a nationalist or populist government may decide to nationalize foreign investment. International investment is very sensitive to “political risk” – that is, that international capital flows or dividends from foreign investment could be appropriated or taxed due to political instability and social conflict in the recipient country. In addition, nationalism, populism, and xenophobia and authoritarian policies against intellectuals and the working class reduce the international mobility of labor, as we discuss in the historical overview of international migration and capital mobility in [Chapter 4](#).

### b. Economic Opportunity

A classic case of open opportunities triggered by a policy regime of free capital and labor mobility along with the monetary stability provided by the gold standard was the first wave of globalization in the late 19th century, when Argentina and other “New World” countries received both capital (primarily from the United Kingdom and Germany) and labor (from Spain, Italy, and other European countries) in response to attractive job and business opportunities and available land and other natural resources in the country.

However, cycles of stability and prosperity may not last forever. Again, in the second half of the 20th century, Argentina was rocked by financial instability, political volatility, and a crisis of democracy. Intellectuals, professionals, and entrepreneurs started to leave the country to more friendly destinations that offered better economic opportunities along with peace and stability. The outflow of people also coincided with an outflow of capital that was escaping uncertainty and instability, further pushing economic development toward its downward spiral (a situation discussed in [Chapter 5](#) in more detail).

The anatomy of factors that can propel prosperity (and/or stagnation) can be described in terms of two considerations: (1) the configuration between supply and demand in the labor market and (2) the savings-investment balance. These two balances affect the size and direction of migration flows and capital flows. A country can be *both* a net importer

of labor (i.e., a net immigration country) and a net importer of capital. In this case, good economic opportunities invite *both* labor and capital. Alternatively, a country with poor economic opportunities, suffering from stagnation, grim job prospects, and unattractive investment opportunities, can be *both* a net exporter of capital (running a current account surplus, reflecting a slump in investment in relation to national savings) and a net exporter of labor (where the demand for labor is unable to absorb the supply of labor, and people begin looking for jobs in other countries). In addition, a country can have mixed regimes – for example, being a net exporter of people (because labor supply exceeds labor demand) and a net importer of capital (running a current account deficit, reflecting an excess of investment over national savings). Another important factor that influences the international movement of capital and labor is the migration and capital account policy regime in recipient and source countries. As mentioned in [Chapter 1](#) and to be addressed in [Chapter 4](#), restrictive labor migration, quotas, special tests, visa systems, and other mechanisms have historically been used to restrict labor flows. In tandem, tax on capital flows and capital repatriation, foreign exchange controls, and minimum reserve requirements have been used to reduce capital mobility.

These configurations of capital flows can and do change over time, as we discuss in more depth in [Chapters 4 and 5](#) (and as [Box 3.3](#) illustrates).

The experience of the United States also illustrates how a country can change its position as net exporter of capital over time (due to a changing savings-investment balance) while also remaining a net immigration country over time. In fact, from the 19th century to the 1980s, the United States was, on average, a net exporter of capital *and* a net importer of people, initially from Europe (and Asia) and then from Latin America (and Asia). Its status as a net exporter of capital changed in the 1980s when the country started to run persistent current account deficits (as national savings fell short of investment), financing the gap with savings from the rest of the world, as foreigners were buying U.S. securities and treasury bills when the government ran into deficit in the early part of the 1990s and again in the 2000s. The main suppliers of savings to the United States are high-savings economies in Asia, such as China, Korea, Taiwan, and oil-exporting countries. In addition, the United States became a *net debtor* as

**Box 3.3 Migration and Capital Flows to and from Argentina**

An example of a country that can change its net migration position is Argentina, which, at the turn of the 20th century, was both a net immigration country – absorbing large contingents of immigrants primarily from Spain and Italy – while being a net importer of capital, chiefly from Great Britain.\* That situation reversed itself in the last decades of the 20th and early 21st centuries when Argentina suffered from emigration flows, particularly of highly skilled people and professionals, due to the poor developmental prospects in the country and the absence of democracy during authoritarian periods. In turn, capital often flew out of the country, particularly during its repeated economic crises.

\*A joke in Argentina was that at the core of its perennial economic problems in the mid to late 20th centuries was the fact that the country had a combination of British trade unions and Italian taxpayers.

its foreign liabilities exceeded its net foreign assets. Still, on the migration side, the United States continues to be a net immigration country, and the ratio of foreign population to total population has increased over time; in the early 21st century, it has been over ten percent of the population, close to its historically high levels during the first wave of globalization. Observers have noted the anomaly of an economic and political super power being a net debtor to the rest of the world.<sup>7</sup>

**c. Natural Resources**

Natural resources and international differences in technology can also explain part of the co-movement of capital and labor. In general, *labor and capital are internationally mobile factors but natural resources are “fixed factors”*: gold mines, forests, and oil reserves cannot move from one country to another. However, capital can move to countries abundant in such natural resources to exploit them and reap good profits. In turn, migrant labor will want to earn good wages by acquiring jobs in these ventures.

<sup>7</sup> Zakaria (2008).

The classic examples of capital and labor chasing natural resources in other countries is the story of mass migration and free capital movements of the late 19th century and early 20th century, in which the countries of the New World (Argentina, Australia, New Zealand, Canada, and the United States) had an abundance of natural resources (land, gold, or mineral resources) and a scarcity of labor and capital, inviting an international transfer of these two resources to exploit natural resources. A more contemporary example is the exploitation of oil, copper, diamonds, and other natural resources in the middle-east, Africa, Latin America, and other areas of the world by international corporations and migrant labor.

### 3.3 Dilemma III: Are Income Convergence and Restricted Migration Compatible?

In [Chapter 2](#), we emphasized that the existence of developmental gaps – large differences in per-capita income across countries – generated powerful pressures for international migration from low-wage to high-wage countries. Such migration, however, affects wages in the destination country and the origin country. That is, in an ideal world in which international migration can move freely – in which people are essentially free to *choose* which countries, cities, or other locations in which they live and work – we should expect, in the long run, a tendency toward wage equalization across countries (or “wage convergence”). The mechanism is simple: In origin countries (low-wage countries), *emigration* reduces the domestic supply of labor, pushing up real wages (if jobs exist); in contrast, in destination countries (high-wage countries), *immigration* increases the supply of labor, pushing down real wages.<sup>8</sup>

#### a. The Magnitude and Speed of Wage Convergence across Countries Will Depend on the Size of Migration

In the era of mass, trans-Atlantic migration flows (the c.1870–1914 period), when millions of Europeans crossed the Atlantic in search of a

<sup>8</sup> In turn, these effects can be attenuated by the movement of capital flows along with labor migration, since capital flows will also affect the demand for labor.



better future, wage convergence was large and significant.<sup>9</sup> In the more restrictive eras for migration – the interwar period and the immediate post–World War II/Bretton Woods era – wage inequality across countries remained strong.

O'Rourke and Williamson (2000) have estimated that around 70 percent of the wage convergence that occurred in the “Atlantic economy” (Europe, United States, and Canada) between 1870 and 1900 can be explained by the collapse of the wage gap between Europe and the New World, when massive international migration flowed from the former to the latter.<sup>10</sup> This story of convergence is one in which lower real wages in labor-abundant Europe of the 19th century caught up with higher wages in the labor-scarce New World. In addition, within the New World, lower-wage countries such as Argentina and Canada were catching up with higher-wage countries such as the United States and Australia.

In the late 20th century, as [Chapter 5](#) shows, wage gaps between Argentina and advanced countries have *not narrowed* over time, as the United States, Canada, and Europe became the highest per-capita income countries in the world during the course of the 20th century. During the same period, and particularly since the 1930s, Argentina fell behind. In the period from mid to late 19th century to mid-20th century, the direction of migration flows was primarily from Europe to Argentina, Australia, Brazil, the United States, and Canada. In this period of relatively free migration flows, a process of convergence of national per-capita income levels and wages in the Atlantic economy took place. Mass migration played a greater role than trade in effecting a change in the levels of inequality in the late 19th century. As shown in [Chapter 4](#), the happy phase of wage convergence was abruptly stopped by the onset of World War I. A deeper question is, of course, if the world's salary levels were converging and if international (not

<sup>9</sup> Hatton and Williamson (2006).

<sup>10</sup> Examining the effect of technological change on income distribution, O'Rourke, Taylor, and Williamson (1996) state: “Labor-saving technologies appear to have accounted for about 39 percent of the drop in the wage-rental rate in the New World, while labor-intensive technologies accounted for about 51 percent of its rise in the Old World, powerful technological forces indeed.”

necessarily internal) inequality was narrowing, why was the world, at the same time, heading toward major international war? Did a tendency toward greater international equality, helped by free immigration, matter little for the maintenance of international peace? Did changes in internal inequality associated with international migration matter more in this regard?

What about wage convergence (or wage divergence) in today's international labor markets? This question has been addressed by Harvard University labor economist Richard Freeman (2006), who examined wages for various categories of professionals in the period 1998–2002 from samples of 26 to 51 countries. Freeman found ratios of 12:1 in salaries for physicians, insurance agents, computer programmers, clicker cutters, and loggers based on market exchange rates. However, these ratios declined to 5:1 to 4:1 when wages were measured in purchasing-power parities that correct for the fact that services are often cheaper in low-income countries. Freeman calls attention to the fact that, today, international goods markets and international capital markets are more integrated – showing smaller differences in prices, measured at appropriate exchange rates – for similar goods and also smaller differences in the cost of capital across countries compared with the much larger differences in wages that we have just mentioned. This finding is important, because it suggests that international labor markets for various categories of labor today are *much less integrated* than the movement of goods and capital, a fact we highlighted in [Chapter 1](#) when we discussed the “people paradox” of (current) globalization. From an historical perspective, this finding reinforces the point for the *limited* globalization of labor markets in the late 20th and early 21st centuries, in which international labor markets for less-skilled labor are much more segmented than 100 to 130 years ago. The fact that, through international migration, people cannot fully capture large, existing international differences in earnings (salaries) across countries must be a factor explaining why international *wage* inequalities are so persistent today. As we emphasized in [Chapter 1](#), part of the reason is due to the fact that existing immigration restrictions are keeping people from receiving higher wages in foreign countries. Yet these immigration restrictions are far from binding, as illegal

### Box 3.4 International Migration: Effects on Internal and International Inequality

Examining the effects of *overall migration* on internal and international (global) income distribution, economic historian Jeffrey Williamson studied the process of *mass migration* of the first wave of globalization from 1870–1913. He asserts: “Where immigration increased the receiving country’s labor supply, inequality rose sharply; where emigration reduced the sending country’s labor supply, inequality declined” (Williamson, 1997). Therefore, in the first wave of mass migration of the late 19th and early 20th centuries, *internal* inequality (between labor and capital) should have *declined* in Europe (the source region) as its labor supply declined, thereby increasing wages, and should have *increased* in the United States, Canada, Argentina, Australia, and Brazil (the recipient countries) as their labor supply increased, thereby moderating wages. In fact, historical trends show: “When emigration trends were big, egalitarian trends were strong; when countries had to accommodate heavy immigration, non-egalitarian trends were strong” (Williamson, 1997). In his view, the impact of mass migration on income distribution was much larger than the impact of trade in goods and services. This analysis refers to *internal* inequality. In principle, global inequality among countries should be *reduced* with international migration, as people move from relatively low-wage countries to nations with higher wages, thereby reducing the real wage gaps between origin and destination countries. This is, in turn, a key element of the entire discussion about *convergence*.

immigration to OECD countries has skyrocketed in the past 15 years or so despite these restrictions. In turn, it may also be that the degree of opening for the immigration of highly skilled professionals and other “elite migrants” is still insufficient to produce a greater equalization in salaries across countries among professionals and other skilled immigrants. (Box 3.4 provides another academic perspective on the relationship between income equality and migration.)

### 3.4 Dilemma IV: Does Immigration Boost Economic Growth in Destination Countries?

International migration entails the transfer of labor from one country to another. In addition, international migrants who are highly educated or have special skills bring “embodied” knowledge that can be an important source of creative value. Minds and bodies contribute to production and economic growth and welfare in destination countries by providing workers, knowledge, and entrepreneurial capacities. One line of causality goes from growth to migration – rapid growth associated with technological innovations, the availability of natural resources, and other factors in the destination country *precedes* immigration. Once the word spreads internationally about interesting opportunities abroad, then we would expect people to try to migrate to those countries offering good economic opportunities, such as those that were open in the first wave of globalization in the late 19th and early 20th centuries in such destination countries as Australia, Argentina, Canada, the United States, and others. The people came from parts of Europe where jobs were few and salaries relatively low. More recently, the information and technology revolution and the dynamism of the U.S. economy in the 1990s and part of the 2000s were factors that attracted international migrants from Latin America, Asia, and Europe to this and other advanced countries.

A second line of the causality goes from international migration to growth, as migration increases the supply of labor and moderates wage increases, in turn boosting profits, capital accumulation, and growth. In practice as well, we may observe a *simultaneous causality* between migration and growth: Increased opportunities and rapid growth invites immigration and, in turn, immigration becomes an important factor in *sustaining and reinforcing* a dynamic of enhanced growth and prosperity by providing new workers and human capital.

At least two mechanisms can account for a positive effect of migration on economic growth in *destination countries*:

1. A *wage effect* of immigration that helps keep labor costs down and profits high, increasing the profitability of investment and thus supporting economic growth.

2. A *talent and technology effect* of immigration of human capital. Certain types of immigrants, such as technology experts, may help accelerate innovation and productivity growth in destination countries, as would those with entrepreneurial capacities and a favorable attitude toward risk taking.

Historically, in the first era of globalization (pre-1914), the human factor was an important contribution to the creation of businesses, the mobilization of resources, the colonization of land, and the innovation of production and technology – all of which stimulated economic growth in the countries of the New World. More recently, in the 1990s and 2000s, highly skilled immigrants from India, Taiwan, and China in Silicon Valley in the United States have been an important human resource in the development of high-technology industries in both, hardware and software, contributing to regional- and economy-wide growth in the destination country.

Recently, a report commissioned by the *House of Lords* (2008) on the effects of international immigration to the United Kingdom found that immigration had a damaging impact on low-wage employees and on the training of British workers. The report also found *small effects* of immigration on domestic growth per capita “once the economy has fully adjusted to the increase in the supply of labor.” In addition, the report concludes, predictably, that the economic impacts of immigration depend critically on the skills of immigrants. In turn, some of these findings are *contested* by the British think-tank *The Work Foundation* (Coats, 2008). Contradicting the report by the House of Lords, the think-tank states that immigration to the United Kingdom has pre-empted skill and labor shortages while contributing to keeping inflation low, thereby *supporting* economic growth in recent years. The topic is certainly controversial.

### 3.5 Dilemma V: Does Emigration Retard Growth in Origin Countries? Brain-Drain Effects

In *origin countries*, the effect of migration on the rate of economic growth and the level of output depends heavily on the skill levels of the native-born workers themselves and the activities they were

performing before emigrating. It also depends on how emigration can affect the availability of human capital, and the rate of total-factor productivity growth (TFP) and technology transfer. If migrants come from economic activities that require only marginal skills levels in the origin country – say, from the urban informal sector, traditional agriculture, or sectors with relatively low productivity – the effect of emigration on the level of domestic output of emigration is bound to be small. Also, if the emigrant is unemployed in the country of origin, then output will remain almost unchanged. Of course, emigration can ease labor-supply squeezes, reducing unemployment with a “nonnegative” impact on economic growth. The growth effects of emigration can be more serious if a country sees a wave of emigration of its professionals, entrepreneurs, and people with high educational levels – say, after an anti-capitalist revolution or a main economic crisis. The emigration of this “skilled elite” can have a negative growth effect on the origin country. This phenomenon may retard economic development for decades if it takes place on a large scale. These effects may be compensated partially by return migration and remittances, as we shall see in the next sections.

Therefore a main channel through which emigration can affect the growth rate of sending countries is the emigration of the high-skilled, well-educated, and talented individuals. This is called the *brain drain*. Empirically, the rate of brain drain is often measured as the ratio of the stock of individuals with tertiary education (skilled migration) working abroad, over the total stock of people with tertiary education (at home and abroad). In 2000, the world average (192 countries) skilled migration rate was 5.3 percent, the average for total high-income countries (41 countries) is 3.5 percent, and the average for total developing countries (151 countries) is 7.4 percent.<sup>11</sup> In turn, these averages are far greater in “small states,” – countries with less than 1.5 million people, according to the definition of the United Nations. In fact, for the year 2000, the average *skilled* emigration rate for a group of 46 small states is a staggering 43.2 percent compared to 15.3 percent of the average emigration rate (skilled and unskilled) for the same set of countries.

<sup>11</sup> Docquier and Marfouk (2006); Schiff and Wang (2008).

In turn, the highest skilled emigration rate for small states is in the Latin American and Caribbean regions (74.9 percent), followed by East Asia and the Pacific (50.8 percent), Sub-Saharan countries (41.7 percent), and high-income countries (23 percent). In the Caribbean region we find countries with extremely high-skilled emigration rates, say above 75 percent. This is the case of Guyana, Grenada, St. Vincent and the Grenadines, and St. Kitts and Nevis. In Sub-Saharan Africa, Cape Verde and Gambia have brain-drain rates above 63 percent; in the South Pacific, Samoa has a brain-drain rate of 76.4 percent, Tonga of 75.2 percent, and Fiji of 62.2 percent. In the Mediterranean, Malta has a brain-drain rate of 57.6 percent and Cyprus of 33.2 percent. Paradoxically, these last two countries are not poor; they have per-capita incomes over US\$9,000.

Some empirical studies (Docquier and Rapoport, 2007) find a *positive* correlation between emigrants to rich countries and the increase in the stock of human capital *at home*, although this still says little on the capacity to invest in education in source countries, and whether this educated people will stay at home after graduation. An empirical study investigating the effect of brain drain on TFP is present in Schiff and Wang (2007). This study highlight that the TFP is an important determinant of the rate of economic growth in sending countries. The study uses a sample composed by 50 developing countries and 15 industrialized OECD economies. The authors examine the effects on TFP of the degree of external openness, expenditure on research and development in the north as a proxy for the diffusion of technology from north to south (lack of data prevents using a variable of R & D in origin developing countries), and a variable denoting human capital (in origin country) besides some interaction effects among these variables. The main empirical findings are that brain drain (emigration of people with tertiary education) has a *negative effect on TFP* and growth, an effect that is particularly strong in small states (with less than 1.5 million populations). The study also found that the interaction effect between education and foreign R&D means that brain drain reduces the absorptive capacity of developing-source countries. Again this effect is larger in small states, countries that, as shown in the preceding, tend to suffer from much higher rates of brain drain than larger economies.

### 3.6 Dilemma VI: Are Remittances the Only Benefit of “Exported” People for the Origin Country? Or Can a Brain Drain Ultimately Have Positive Effects?

Remittances are becoming an additional, important source of developmental financing; in fact, remittances are currently the second most important source of external financing to developing countries, after foreign direct investment – even surpassing foreign aid. However, remittances are relatively concentrated in a group of developing countries: The top 20 recipient countries of worker remittances capture about 80 percent of total worker remittances to developing countries. The three main recipient countries, in terms of value, are India, Mexico, and the Philippines. The concentration of remittances in a group of destination countries somewhat dampens the reach of remittances to the developing world if measured by the number of countries reached; however, if measured by the number of people, remittances are significant, since these recipient countries are large, low- to middle-income developing countries.

In 2005, developing countries as a group received around 65 percent of world remittances. In turn, the lower middle-income and low-income groups received a higher proportion than upper middle-income countries. In 2007, an estimated flow of US\$45 billion in remittances reached the Latin American and Caribbean region (MIF-IDB, 2008). This amount can be a significant complement to the income of a recipient family in the home country. As a reference point, the minimum wage in several Latin American economies is often less than US\$300 a month. A Latino immigrant may send home between US\$250–300 each month.

At the other end of the migration spectrum are highly educated and entrepreneurial emigrants that may be expected to have different patterns of remittance transfers back home. At the same time, they are often agents of capital movements across countries, many times between the destination and the origin countries. Economic geographer Annalee Saxenian (2006) has studied patterns of the mobility of expatriate entrepreneurs from India, Taiwan, and China in Silicon Valley (see [Box 3.5](#)). Her work has examined how they and high-level executives living and working in the United States have also set up software and hardware



### Box 3.5 Capital Repatriation and Entrepreneurial Migration

Patterns of emigration–return migration and the mobility of technical and highly skilled migrants between destination and origin countries are important factors in the growth and developmental effects of migration on the source economy.

One interesting example of how capital and immigrants match is the relationship established between the Overseas Chinese in the United States (primarily those in Silicon Valley) and Taiwan's technological sector, producing personal computers and integrated circuits, structured largely around the Hsinchu Scientific Park. Interestingly, in this case it was the creation of the Taiwan venture capital industry in the 1980s that attracted a growing number of Chinese immigrants in the United States to start their own business in Taiwan (Saxenian and Li, 2003). At the same time, the Taiwanese venture capital industry provides funding for start-ups in Silicon Valley's information-technology firms led by Chinese immigrants. The combination of a venture-capital community in Taiwan (alone or in alliance with U.S.-based venture-capital funds) and Chinese immigrants in the United States with ample technological and managerial know-how and contacts, has been a key factor for a rapidly emerging global network of investment in technology-related industries.

companies back in their home country, and have become vehicles for the international transfer of capital, market knowledge, contacts, and technology between these countries and the United States. In addition, many affluent migrants have become donors to international associations of emigrants, which in turn remit regular donations to the home country for social purposes.

Can brain drain have a *positive effect* on the sending nations? A growing literature has tried to address this question and to get a further understanding of the effects of the emigration of human capital and talented individuals on the source countries' stock of human capital, their capacity to undertake innovation, and ultimately the growth rate of the sending nations. First-generation models (Berry and Soligo, 1969;

Bhagwati and Hamada, 1974) underscored the “brain-drain” effect of emigration of skilled individuals through a reduction in the stock of human capital and other negative fiscal and productivity externalities. In the 1990s and 2000s, these effects have been questioned and a more optimistic view has developed on the potential effects on global development of the increased international mobility of talent (Solimano, 2008). In particular, attention has been given to the possibility of “brain gain” and the creation of “brain banks” abroad following skilled emigration.<sup>12</sup> The “new economics” of international migration literature highlights at least four channels for potentially *positive effects* of talent emigration on the sending country: (1) the incentives for acquisition of education associated with the emigration of talent that would increase the lure for people to become more educated, ideally increasing over time the stock of human capital in the source country<sup>13</sup>; (2) the positive association detected between remittances and education in the home country<sup>14</sup>; (3) the dampening tax effect associated with the emigration of professionals, scientists, and other people with high qualifications that would refrain governments from taxing human capital and therefore encouraging its accumulation<sup>15</sup>; and (4) the global production of “knowledge goods” (films, vaccines, software, new capital equipment) in advanced countries that countries in the periphery could directly import. These effects, according to the new economics of international migration, should have potentially positive effects, in the long run, on the rate of economic growth of the sending country besides having positive welfare effects in the case of consumption knowledge goods. The effects of a malaise turned into a virtue – for source countries affected by the flight of its human capital is an open question. The controversy on the existence, size, and relevance of the “beneficial brain drain” is likely to continue. Maurice Schiff, an immigration expert at the World Bank, has shown via a variety of theoretical models and empirical evidence that the positive effects of brain drain on growth and welfare of the sending countries is *smaller* than suggested by the new literature on brain drain.

<sup>12</sup> See MacAusland, C. and P. J. Khun (2009); Agrawal, Kapur, and McHale (2008).

<sup>13</sup> Mountford (1997).

<sup>14</sup> Ozden and Schiff (2006).

<sup>15</sup> Bucovestky (2003).

a. At a Macroeconomic Level, Remittances from Migrants Are Currently a Growing and Relatively Stable, Market-Based “External” Source of Developmental Financing

Remittances bring foreign exchange to the origin country of migrants. This has both positive and not-so-positive effects. On the one hand, remittances tend to cause the real exchange rate to appreciate (the purchasing power of foreign currency in the national market of the recipient country declines), which will harm the profitability of manufacturing and agricultural exports, and make tourism and other services more expensive for foreigners. On the other hand, remittances complement national savings, and provide a source of financing for capital formation (primarily small-scale projects). In general, remittances have a positive effect on investment only on a small scale. No electrical power plant or highway will be financed directly from remittances, but local public works, education, and micro- and small enterprises are helped by this extra flow of funding from abroad. Also, it has been detected that families that receive remittances tend to have children that remain more years in school compared to families that do not receive remittances, although, theoretically, remittances may have an uncertain effect on educational attainment.<sup>16</sup> In addition, it is found that the gender composition of migration matters: When migrants are women, remittances tend to be used less for education of children in the *source country* than when the emigrant is male.<sup>17</sup>

The developmental effect of remittances can be decomposed into effects on growth, savings, investment, consumption, and poverty and income distribution.

The impact of remittances on growth in recipient economies is likely to act through savings and investment (again, primarily on a small scale), as well as through short-run effects on aggregate demand and output through consumption, which is expected to have positive impacts on the level of activity and medium-term growth. As mentioned, the effect of migration on output depends upon the productivity level of the

<sup>16</sup> Acosta, Fajnzylber, and Lopez (2007).

<sup>17</sup> Morrison, Schiff, and Sjoblom (2008).

emigrant in the origin country before departure. Solimano (2003) tested the effect of remittances (as a proportion of GDP) on GDP per-capita growth rates for Ecuador and Colombia, and found that international remittances had a *positive* impact on the economic growth rate of both countries. Still, consensus is lacking about the positive effect of remittances on the economic growth of recipient countries. In contrast, an International Monetary Fund (IMF) study (Chami, Fullenkamp, and Jahjan, 2003) suggests that remittances constitute a private transfer of funds for confronting adverse economic situations in the immigrant's country of origin, and are thus counter-cyclical, thereby exhibiting a *negative* correlation with the GDP per-capita growth rate of remittance-recipient countries. (This result could also be interpreted in line with the altruistic motive for sending remittances, discussed in Chapter 5.) The authors tested their hypothesis with cross-sectional and panel specifications from a sample of 113 countries for the 1970–98 period, and found that remittances had a *negative impact* (as a proportion of GDP) on the GDP per-capita growth rate.

The total saving effects of remittances come from the sum of foreign-savings and domestic-savings effects. Worker remittances are a component of foreign savings, and they complement national savings by increasing the total pool of resources available for investment. Part of the savings effects of remittances takes place in the “community,” oriented toward financing small infrastructure projects, such as water treatment, schools, roads, parks, and so forth.

Remittances also finance consumption. The empirical evidence suggests that at a micro-level, approximately 80 percent of the income coming from remittances are used by recipients to finance consumption and the rest is used to pay for the education of their children (or to avoid pulling them out of school due to a lack of funding), to finance home construction or improvements, or to invest in small-scale enterprises or shops.

A study of remittances for Ecuador shows that 60 percent or so of remittances are spent on food, medicine, house rents, and other basic commodities. The study shows that less than 5 percent of remittances are used to acquire residential property.<sup>18</sup>

<sup>18</sup> Multilateral Investment Fund and Pew Hispanic Center (MIF-PHC) (2003).

### Box 3.6 Rents in Money-Sending Markets

An international market for sending remittances has emerged, with intermediaries that charge generally hefty fees of about 10–15 percent for international transactions that are often of modest size. The traditionally high cost of intermediation for sending remittances is due largely to the fact that the market is dominated by only a few large financial intermediaries, such as Western Union, Money-Gram, and others. These companies have a good distribution network, with offices in a vast array of countries, and can provide reliability and speed in the delivery of the money. Only recently have commercial banks started to tap this market. In the recent past, the clients (immigrants) often were not in the commercial bank circuit, in part because their legal immigration status prevented them from approaching the banks. This situation is changing. In the case of Mexico, consular offices are issuing identity cards that are accepted by banks to immigrants. The eruption of commercial banks in this market is reducing remittance fees. Even now, some banks are charging zero for remittances as an incentive to immigrants to open bank accounts. In addition, travel agencies and “ethnic stores” (shops owned and run by foreign nationals) offer services for sending remittances to their home country.

### 3.7 The New Developmental Effects of Migratory Talent Can Supersede the “Brain Drain” If Return Migration and Diaspora Contacts Are Present

In [Chapter 6](#) of this book, we discuss *who* migrants are – their individual face and education and social profile. Here, we set that stage by discussing whether the migration of one of these groups – scientists, innovators, professionals and entrepreneurially elite – is a blessing or a curse to origin countries. Talent migration seems to escape the daily headlines, which of course concentrate on the “scarier” faces of migrants – the illegal, undesirable, or criminal. But the migration of talented individuals is one facet of the globalization process that is almost “right,” particularly if the talent that leaves a country so that it can flourish in another, more productive economic environment “re-circulates” its gifts back home at

some point. The global community can solidify the progression of “brain circulation” by developing new evidence on the topic, distancing itself from the old emphasis that the emigration of talent entails only costs. In particular, if there is a circulation of talent, positive effects can emerge from the flow of remittances, the production of goods of superior technological content that will benefit consumers and producers back in the origin country, the transfer of new technologies and ideas, and the establishment of new contacts and markets in advanced countries that will be useful for developing countries.

A recent study<sup>19</sup> has addressed the issue of emigration of innovators to see if the brain-drain effects of allowing innovators to leave home is partially offset by the implicit “brain bank” – stock of accumulated knowledge that could be transferred internationally – that the emigration of scientists, innovators, and technological entrepreneurs create abroad. The arguments behind the brain-bank effect are intuitive, but still the empirical evidence and the practical relevance of this effect is far from conclusive: The authors argue that it is unclear that in a global economy, low- and middle-income countries should strive to *push* the knowledge frontier rather than *access* that frontier through international trade in services, knowledge products, and capital goods. In this context, the emigration of local, talented innovators is not necessarily a curse: In many developing countries, lack of resources and incentives for innovation generate a low level of research and development and a suboptimal level of actual innovation: Local innovators are bound to have just modest results in low-income countries. In contrast, if they immigrate to high-income countries, the argument goes, in which they will probably find a more supportive environment for innovation (larger budgets, better equipped labs, colleagues, and incentives), innovators will deliver a higher level of “inventions.” Sending countries can benefit from these innovations and the production of “knowledge goods” through contacts with their diasporas. The net result will come from comparing the negative effect of the emigration of talent that weakens local knowledge networks and depress local inventions, to the positive effects of sending innovators abroad that contribute to *global*

<sup>19</sup> Agrawal, Kapur, and McHale (2008).

knowledge banks. The actual access to those “knowledge banks” by developing countries is bound to depend upon a variety of factors such as the costs of those knowledge goods, the rules and enforcement of property rights (patents) in both sending and receiving countries, the degree of contact between the technological and scientific diasporas abroad and the home country, the adaptability of foreign knowledge to local needs and conditions, and the size and location of the emigration of innovators. Furthermore, it is apparent that not all poor- to middle-income countries fail to innovate. China, India, Cuba, and other countries develop innovations in a variety of fields such as biotechnology, software development, and new accessible medical treatments to cure dangerous diseases.

From a policy perspective, the developing countries must be aware that given big international differences in pay levels between rich and poor countries, and the much greater availability of resources in high-income countries to support research, development, and innovation activities, it is unlikely that reverse migration of talented individuals will step up in sizeable amounts, unless origin countries put policies in place that allocate *abundant* resources to universities, research centers, and think-tanks, and offer attractive opportunities for innovators to return home. This requires an intelligent use of resources, incentives, and persuasion to retain this talent at home or to encourage its circulation and return. We can think of a set of practices and policies that can encourage talent retention, circulation, and return: establishing adequate reward structures (pay level and social benefits), having clear and attractive career possibilities for motivated and talented professionals and innovators in their home countries to undertake creative work, increasing the availability of public resources to support promising research and development, creating a merit-oriented culture in the public sector oriented to attract and retain valuable professionals and managers, simplifying and eventually eliminating bureaucracy that increases the costs of doing productive business for the private sector, and so forth. In [Chapter 6](#), we elaborate on the difficulties associated with rent-seeking, the politicization of public organizations, and other distorted practices that hamper the retention and return of talent to the developing world.

### a. Return Migration Is Not Yet a Guarantee

In the 1960s and 1970s, economists were engaged in an interesting polemic between the “nationalist school” (represented by the late professor Don Patinkin from Hebrew University of Jerusalem in Israel) and the “internationalist school” (represented by the University of Chicago School, known by its free-market Canadian professor Harry Johnson).<sup>20</sup> The internationalists stressed that the mobility of talent was the result of better economic and professional opportunities found abroad than at home, and that this mobility led to clear gains not only for those who moved, but also for the world economy in general, as resources moved from places with lower productivity to places with higher productivity, thus increasing world income and “global welfare.” The nationalists, in turn, questioned the meaning of the concept of “world welfare,” and pointed out the “asymmetric” distribution of gains gleaned from the mobility of qualified human resources between low- and middle-income origin countries and wealthy destination countries. At the time, the discussion on talent mobility was strongly influenced by the notion of “brain drain” – a one-way flow of qualified human resources from poor to rich countries, or from the periphery to the core nations in the world economy – that led to a net permanent loss for the origin country. The consequence of this, it was argued, was the loss of the educational investment made in public universities to produce people whose contribution would accrue instead to foreign countries. In a way, this was a sunk cost – a regrettable cost but largely unavoidable.

From an economic viewpoint, the true loss is the expected *future* stream of output these people would generate outside the national boundaries of their home country if they did emigrate, rather than the sunk cost of past educational investment in those who left the country. We do not deny that this “brain drain” is still the case among many professionals coming from poor countries. But we do note that the increasing circulation of people tied to productive sectors at the start of the 21st century should be thought of more in terms of “brain

<sup>20</sup> Johnson (1964).



circulation” – a *two-way* (or multidirectional) movement of talented students, professionals, IT experts, entrepreneurs, cultural workers, and others in the world economy in response to new opportunities made available to them by the globalization process in different cities and countries around the world. This trend has been reinforced by the now greater information flows on economic opportunities and lifestyles across the globe and by lower transportation costs.

There are multiple examples. After graduating in the United States, Indian and Chinese nationals have become successful entrepreneurs (in Silicon Valley, for instance, and as discussed earlier in [Box 3.5](#)) and are uniquely positioned to serve as bridges between Asian and American markets given their contacts and access to technology and capital in both markets and societies. In the 1990s and 2000s, these people started new productive ventures in their home countries, transferring technology and market knowledge. In Latin America, Chilean, Mexican, and Bolivian entrepreneurs are making successful inroads into biotechnology and mobile phone companies in North America. Some of those investments have also created new links and encouraged new investments in their home countries. In former socialist countries such as Poland, the Czech Republic, Russia, and others, the new information technology has also spurred the emergence of technology investors that are internationally mobile. Israel, India, and Taiwan are also important source countries of tech-investors with some strong links to the United States, as mentioned before.

#### b. Depredatory Migration: The Medical Brain Drain

In this book, however, we do recognize that while the international mobility of qualified human resources in the business sector can have win-win effects for both origin and destination countries, and not just for those who move, these effects are not always positive in the social sectors, *particularly in the health sector*. In fact, a particularly dramatic case is the massive and persistent emigration of medical doctors, nurses, and other health-care workers from the Caribbean, poor nations in Sub-Saharan African, the Philippines, and other developing countries. These medical professional go to work in the United Kingdom, the

United States, Canada, Australia, and other advanced OECD countries that we discussed in [Chapter 1](#). The negative side effect of this mobility of health professionals is the severely strained health sector in the origin countries. This is particularly serious in Africa, which is suffering from an AIDS epidemic, malaria, and other diseases that cause the loss of human life and impair the continent's developmental potential. The exit of medical doctors and nurses from poor countries highlights the conflicts between the private interests of health professionals and the social needs of the health sector in the home countries, really a *moral dilemma*.

The statistics of the degree of brain drain in the health sector in several countries, particularly small states in developing countries, are *alarming*. While the world average of medical brain drain (the stock of physicians from a given country working abroad divided by the total stock of physicians of that country residing at home and abroad) is 2.3 percent and the average for developing countries is 2.1 percent, the average rate of medical brain drain in small states (46 countries) is 24.3 percent – *between 10 to 12 times higher than the average for the world and for developing countries as a whole*. This percentage climbs to 64.7 percent in the Latin American and Caribbean regions, followed by Sub-Saharan Africa at 28.8 percent. In Guyana in the Caribbean, 80 of 100 physicians are working outside Guyana.<sup>21</sup> In other words, you have to train five physicians to expect one to remain in the country. The problem of medical brain drain is even more serious if we realize that at the same time, small states have, on average, a much lower ratio of physicians per 1,000 people: 0.98 compared to a world average of 1.41 and for high-income countries 2.8. The main recipients of medical doctors and other health personnel are all rich countries: the United States followed by the United Kingdom, Canada, and Australia.<sup>22</sup>

What can be done to stop this hemorrhage of medical personnel from poor, small countries and from the developing world in general? No easy fixes probably exist, as this is rooted in deep causes linked to big wage differences between source and destination countries,

<sup>21</sup> The average rate of medical brain drain is 81.9 percent (Docquier and Schiff, 2007).

<sup>22</sup> International Organization for Migration (IOM) (2008), p.63.

compounded by general underdevelopment and poor economic and professional prospects in a world in which the motivation of doing social service is not enough to keep medical doctors at home. However, some options have been put forward: Frederic Docquier and Maurice Schiff propose that source countries cooperate with rich nations to establish programs in which the latter will provide fellowships to medical students from the Third World with a condition that the recipient would return home after graduation for a period of time before he or she would have the option to migrate. Another possibility is for hiring countries to issue temporary contracts to medical personnel in the hope that they would return home. The more general point we have been arguing in this book is that source countries must offer attractive working conditions (wages, career possibilities, promotion schemes, equipment, and medicines), along with encouraging a sense of social purpose to these professionals, to retain their medical doctors and nurses. Also, a degree of *recognition* by governments and the community to medical doctors who stay home and contribute to address the internal health problems of their own countries would certainly help. This requires setting this as a political priority and allotting the adequate resources in *sustained* ways.

### c. Brain Circulation: The Case of International Students

In the educational sector, the story is also complex. If the best and the brightest of the scientists, university professors, and scholars leave their home country, the quality of research and education will certainly suffer, and this will be a cost for the home country. However, if there is circulation of these people and they remain connected with their home country by teaching, supporting, and participating in joint research initiatives, then there can be win-win effects of this mobility. A main vehicle of international circulation of talent is the *mobility of foreign students*. Studying abroad is a way to acquire higher education in another country and also a way to create opportunities for more permanent migration to the destination country. The numbers of foreign students have *skyrocketed* in the last 20 years or so. In 2004, there were 2.7 million students worldwide studying outside of their home countries.

It is estimated that 20 years ago there was just one-third of that number.<sup>23</sup> Globalization has certainly reached the field of education, particularly tertiary education. At the same time, there is a high concentration of foreign students in OECD countries: 85 percent, of which two-thirds (66 percent) were nationals of non-OECD countries. The main recipient country of foreign students is the United States, followed by the United Kingdom, Germany, France, Australia, and Canada. Interestingly, universities in rich nations since the 1990s stepped-up their policy of hiring foreign graduates to join their faculties. Foreigners are nowadays an important source of creativity in science, technology, and a variety of fields in universities and research centers in the United States, Canada, the United Kingdom, Australia, and other main recipients of foreign students. In turn, the average stay rate of foreign graduates in science and engineering in the United States was 41 to 56 percent between 1992 and 2001.<sup>24</sup> Stay rates have increased for foreign graduates coming from China, India, Argentina, Greece, Israel, Eastern European countries, New Zealand, and the United Kingdom. No doubt the United States is a magnet for bright and talented foreign students. Do source countries benefit from this increased flow of foreign students to OECD countries? The answer depends, among other things, on the stay rates, which vary significantly by country of origin and also by discipline. Countries that have over 20 percent of their graduates living in OECD countries range from Sri Lanka, Ethiopia, Tunisia, Gabon, and Zambia, all of which are in the range of 20–25 percent, to Fiji, Guinea Bissau, Trinidad and Tobago, Haiti, Jamaica, and Guyana, all with percentages in the range of 60–83 percent. It is apparent that these countries are low-income nations and several of them “small states.” In addition to having high rates of general brain drain and exodus of medical doctors, small states also have a high rate of international student mobility. Still, countries of origin can also benefit from this through the mechanisms of knowledge and technology transfer, production of knowledge goods abroad, remittances, capital repatriation and investment, contacts in foreign universities, and so on. However, these are *potential effects*, dependent upon a host of factors

<sup>23</sup> International Organization for Migration (IOM) (2008), Chap. 4.

<sup>24</sup> International Organization for Migration (IOM) (2008).

already discussed (degree of return after graduation, contacts with the diaspora, absorptive capacity and openness in local universities, the government and the private sector, and others).

### **3.8 Concluding Remarks about What Happens when People Migrate**

This chapter highlighted several impacts of international migration and the dilemmas posed by the migration process for the global economy, destination countries, and origin nations.

Dilemmas arise as migration sets off conflicting forces; the economic logic (the rapid availability of workers, low transaction costs in spot labor markets, and labor flexibility) calls for more liberal immigration regimes and fewer constraints on hiring foreign labor. However, this logic conflicts with the legal framework governing the immigration of people to destination countries. At the same time, illegal migration leaves immigrant workers very vulnerable, almost without well-defined labor, social, and legal rights. The immigrants get jobs in destination countries and earn higher salaries than at home, but they are also unprotected from labor-market shocks and other exigencies.

The connection between the international mobility of capital and the international mobility of labor across countries can go in various ways. Good opportunities in a country can invite both foreign capital and foreign labor, but instability and stagnation can induce both factors of production to leave. Inflows and outflows of both resources can set in motion virtuous or vicious cycles of economic prosperity or stagnation and poverty traps. The chapter also discusses the role that international migration has historically played in international convergence of wages, and shows that, currently, international wage gaps for qualified professionals are still significant across countries, suggesting that the extent to which international labor markets for talent are integrated is still quite low. The chapter also discusses various mechanisms and recent empirical evidence through which brain drain, the exodus of medical doctors, and the international mobility of students can affect productivity, growth, and development in the source developing countries and in small states. We also touched upon the impact of remittances on economic growth in

origin countries – a topic discussed in greater depth in [Chapter 5](#) in the Latin American context.

In the next chapter, which provides a historical perspective on international migration, we pick up on two of the topics from this chapter – in particular, the mobility of capital and labor and its effects on wage convergence, and how that relationship has evolved over the past 150 years.

## FOUR

### How Empires, Policy Regimes, and Economic Imperatives Influenced the Mobility of Capital and People in the 20th Century

The international mobility of people and capital does not take place in an institutional and historical vacuum. They are closely linked to economic policy regimes, degrees of openness to people and capital mobility, state of the business cycle in source and destination countries, prevalence of cosmopolitan versus nationalist sentiments, and other factors. As discussed in the previous chapter, the international mobility of labor and capital are linked phenomena, as manifested by the economic history of the world in the past one and one-half centuries. Thus, both phenomena must be analyzed jointly. In periods in which economic policy and political regimes made greater access to the global marketplace possible, people and capital moved internationally to regions, countries, and cities that offered better jobs, higher wages, and more attractive investment regimes.

As this chapter shows, the world economy has undergone *four* very distinct phases and policy and political environments between 1870 and the early 21st century, each of which affected the international mobility of people and capital in significant ways. The first period (1870–1913), which ushered in the first wave of globalization, was one in which international capital and trade flowed freely under the gold standard, and the mobility of labor across national borders was largely unrestricted. This liberal movement of capital and people led, over time, to the convergence of real wages and per-capita income between the Old and New Worlds (European empires and their colonist economies), but not countries and regions outside that international circuit of mass migration and capital mobility – the “periphery” of the world economy.

The pre-1914 liberal economic and political order collapsed with World War I when the gold standard was abandoned, giving rise to two decades of economic instability, inflation, exchange-rate and capital controls, depression, and xenophobic nationalism. This period is referred to as “deglobalization” or the “interwar years.” The economic and political environment in those years was clearly inimical to both international migration and international capital mobility. Attempts to restore the gold standard in the mid-1920s under a new “gold exchange standard” were ultimately abandoned in 1931 as England “walked out of gold.” The reconstruction of monetary stability in the 1920s was affected by new social demands that affected public finances and reduced the room for wage flexibility. In turn, the Great Depression added a particularly dramatic shock to the world economy.

After World War II, a new economic and geopolitical equilibrium evolved under the dominant eye of the United States and its growing competition with an emerging socialist block led by the Soviet Union. Until the early 1970s, domestic objectives of full employment, growth, and social progress took prominence over international private capital mobility. This third period was the “Bretton Woods era” (1945–71), in which the monetary regime in advanced countries was based on fixed exchange parities with the U.S. dollar as the dominant reserve currency, which in turn had a fixed parity to gold. It presided over a quarter of a century of a “golden age of capitalism,” characterized by rapid economic growth and political stability but that incubated disequilibria that contributed to its demise. A blow to that dynamic period was the abandonment of the convertibility of gold by the U.S. government in 1971, after cumulative fiscal deficits in the United States and divergent trends in productivity growth among advanced economies made the fixed parities among currencies and the dollar to gold no longer sustainable. This major change ushered in a fourth period – a system of floating exchange rates among the world’s main currencies and the phasing out of gold convertibility that characterized the Bretton Woods system. Capital markets started to flourish, helped by the abundance of petrodollars and by the lowering of barriers to capital mobility among advanced economies and gradually also in developing countries. The increased degree of capital mobility along with an expansion of international trade led to a new period



that has been called the “second wave of globalization” because of its on-the-surface similarities to the first wave of globalization. However, several differences exist between the two waves of globalization along such critical dimensions as the monetary regime (now, floating exchange rates rather than the gold standard), the role of the United States as the main superpower (a role played by Great Britain in the first wave), and other differences concerning the degree of capital and labor mobility that are explored in this chapter.

International migration flows started to increase in the 1980s and 1990s, and in the early to mid-2000s it is estimated that nearly 12 percent of the U.S. population is foreign born – a record not seen since the late 19th century in the age of mass migration. Throughout the 20th century, with the exception of some years in the interwar period, the United States was a net immigration country, first from Europe and then from developing countries, particularly from Latin America (as discussed in more detail in [Chapter 5](#)).

This chapter elaborates on these four phases of the world economy and explores in more detail the factors surrounding the rise and fall and rise again of capital and labor mobility in the past one and one-half centuries in the international economy. Before each period is discussed in depth, the rest of this introductory section provides graphical evidence on labor and capital mobility that gives overview information and numbers as a guidepost for the remainder of the text.

#### **4.1 The Patterns of Capital and Labor Mobility Confirm Their Parallel Movement**

[Figure 4.1](#), borrowed from Obstfeld and Taylor (2004), provides a synoptic view of the evolution of international capital mobility from the late 19th to the early 21st centuries. As shown in the figure, the degree of capital mobility<sup>1</sup> was greater in two periods: (1) under the gold standard (1860–1914, the first wave of globalization) and (2) in the post–Bretton Woods, neoliberal period (the second wave of globalization), particularly since

<sup>1</sup> The authors use various indicators of capital mobility, including currency convertibility, constraints on short-term capital flows, taxes on capital movement, and so forth.

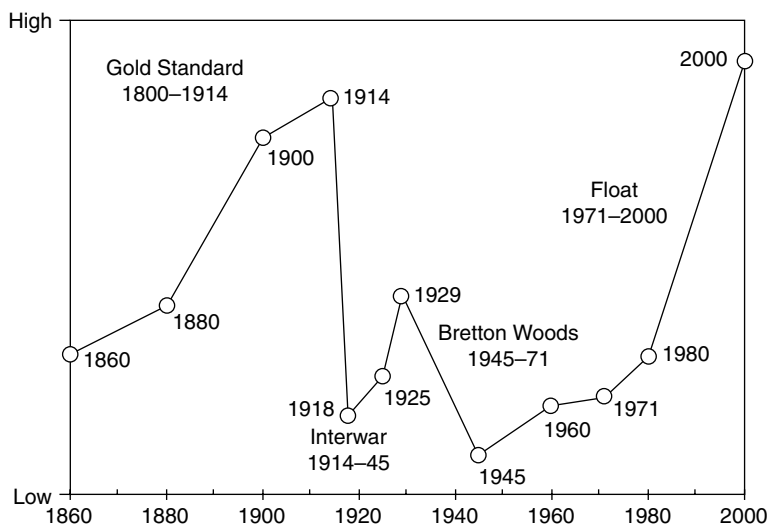


Figure 4.1. A stylized view of capital mobility in modern history, 1860–2000.

Source: Obstfeld, M., and A. M. Taylor (2004), *Global Capital Markets. Integration, Crisis and Growth*. Cambridge University Press: Cambridge.

the 1980s.<sup>2</sup> In contrast, capital mobility declined sharply in the interwar years, and then slowly recuperated between 1945 and the early 1970s under the Bretton Woods regime.

Tables 4.1a and 4.1b show the evolution of the flow of immigration (totals per decade) to the United States and the stock of foreign population from 1871 to 2006, measured in terms of the number of people and as shares of the U.S. population. Figures 4.2a and 4.2b depict those numbers and shares graphically for each decade over the period 1871–2006, dividing it according to the four economic-political phases

<sup>2</sup> Capital mobility accelerated after the Bretton Woods system of fixed exchange rates was abandoned in the early 1970s, when large oil revenues accruing to oil-exporting countries were being recycled in international banks and other financial institutions, primarily in the advanced world. This flow of capital freed up lending and borrowing on an international scale, a trend that deepened in the 1980s, 1990s, and 2000s. However, the acceleration of capital mobility was punctuated by successive currency and financial crises in both advanced and developing countries in the 1990s and early 2000s – the currency crises of the Italian lira and British pound in the context of the exchange-rate mechanism in 1992, the Mexican currency and banking crises of 1994–95, the Russian and East Asian crises of 1997–98, the Argentine crises of 2001–02, and the U.S. real estate and banking crisis of 2007–08.

Table 4.1a. *Number of foreign-born people and immigrants to the United States, 1871–2006*

Period	Number of Immigrants in the U. S.							Total Immigrants
	U. S. Population	Foreign-Born Population	Europe	Asia	LAC	Africa	Other	
1871–1880	50,189,209	6,679,943	2,271,925	124,160	20,404	358	395,344	2,812,191
1881–1890	62,979,766	9,249,547	4,735,484	69,942	33,663	857	406,667	5,246,613
1891–1900	76,212,168	10,341,276	3,555,352	74,862	35,661	350	21,339	3,687,564
1901–1910	92,228,496	13,515,886	8,056,040	323,543	182,662	7,368	225,773	8,795,386
1911–1920	106,021,537	13,920,692	4,321,887	247,236	401,486	8,443	756,759	5,735,811
1921–1930	123,202,624	14,204,149	2,463,194	112,059	592,170	6,286	933,500	4,107,209
1931–1940	132,164,569	11,594,896	347,566	16,595	51,485	1,750	111,035	528,431
1941–1950	151,325,798	10,347,395	621,147	37,028	153,810	7,367	215,687	1,035,039
1951–1960	179,323,175	9,738,091	1,325,727	153,249	559,281	14,092	463,130	2,515,479
1961–1970	203,302,031	9,619,302	1,123,492	427,642	1,283,420	28,954	458,169	3,321,677
1971–1980	226,542,199	14,079,906	800,368	1,588,178	1,811,801	80,779	212,188	4,493,314
1981–1990	248,718,302	19,767,316	761,550	2,738,157	3,457,829	176,893	203,633	7,338,062
1991–2000	281,424,602	31,107,889	1,359,737	2,795,672	4,294,779	354,939	90,290	9,095,417
2001–2006	299,398,485	37,547,315	932,920	2,038,607	2,535,198	416,713	244,967	6,168,405
1871–2006			32,676,389	10,746,930	15,413,649	1,105,149	4,938,481	64,880,598

Source: U.S. population: U.S. Census Bureau (2006a), 8; U.S. Census Bureau (2006b). Immigrants: U.S. Department of Homeland Security (2007; 2008). Immigrants: 1870–2004: U.S. Department of Homeland Security (2007); 2005 and 2006: U.S. Department of Homeland Security (2008). For foreign-born: Gibson and Lennon (1999), and Batalova (2008).

Table 4.1b. *Share of foreign-born people and immigrants of the U.S. population, 1871–2006 (percent)*

Period	Foreign-Born as Percentage of U.S. Population	Total Immigration as Percentage of U.S. Population	Immigrants by Region as a Percentage of U.S. Population				
			Europe	Asia	LAC	Africa	Other
1871–1880	13.31	5.60	4.53	0.25	0.04	0.00	0.79
1881–1890	14.69	8.33	7.52	0.11	0.05	0.00	0.65
1891–1900	13.57	4.84	4.67	0.10	0.05	0.00	0.03
1901–1910	14.65	9.54	8.73	0.35	0.20	0.01	0.24
1911–1920	13.13	5.41	4.08	0.23	0.38	0.01	0.71
1921–1930	11.53	3.33	2.00	0.09	0.48	0.01	0.76
1931–1940	8.77	0.40	0.26	0.01	0.04	0.00	0.08
1941–1950	6.84	0.68	0.41	0.02	0.10	0.00	0.14
1951–1960	5.43	1.40	0.74	0.09	0.31	0.01	0.26
1961–1970	4.73	1.63	0.55	0.21	0.63	0.01	0.23
1971–1980	6.22	1.98	0.35	0.70	0.80	0.04	0.09
1981–1990	7.95	2.95	0.31	1.10	1.39	0.07	0.08
1991–2000	11.05	3.23	0.48	0.99	1.53	0.13	0.10
2001–2006	12.54	2.06	0.31	0.68	0.85	0.14	0.08

Source: Table 4.1a.

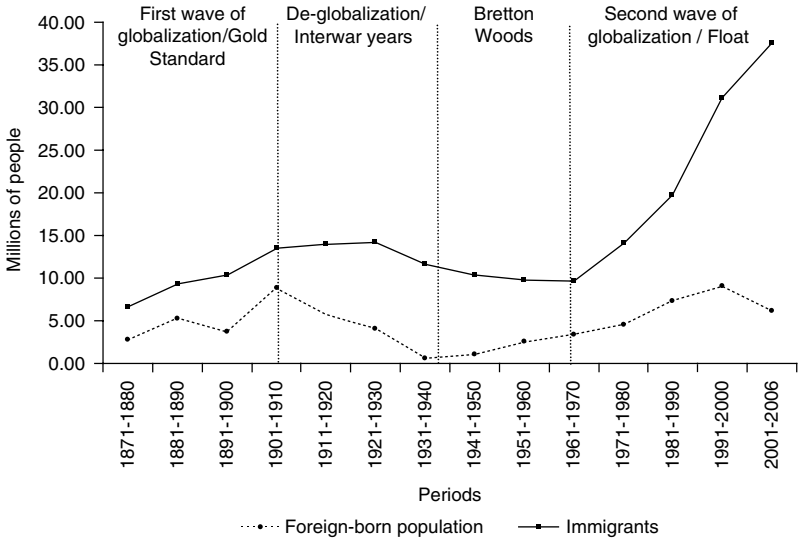


Figure 4.2a. Number of foreign-born people and immigrants to the United States (millions of people, decade totals, 1871–2006).

Source: Immigrants: 1870–2004: U.S. Department of Homeland Security (2007); 2005 and 2006: U.S. Department of Homeland Security (2008). For foreign-born: Gibson and Lennon (1999); Batalova (2008).

discussed herein. Superimposing Figure 4.1 onto Figures 4.2a and 4.2b shows a qualitatively similar movement of capital and labor over the periods.

Before the dynamics of these magnitudes are discussed, it is useful to clarify the terms used: the U.S. Office Immigration Statistics considers immigrants “those aliens who have been granted lawful immigration status as permanent residents of the U.S.” Therefore, *immigrants* differ from the *foreign-born population* (a stock), in that the latter also includes (besides immigrants as legal permanent residents) temporary migrants (e.g., students), humanitarian migrants (e.g., refugees), and unauthorized migrants (people illegally residing in the United States).<sup>3</sup>

It is interesting to note that migration to the United States increased (in total numbers and as a share of the U.S. population) in both the first and

<sup>3</sup> Census data distinguish U.S. citizens from noncitizens but not legal from undocumented immigrants.

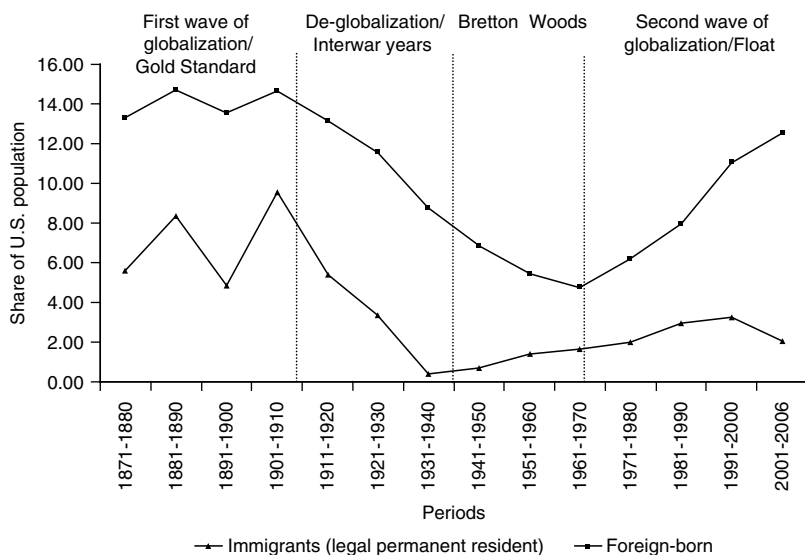


Figure 4.2b. Share of foreign-born people and immigrants of the U.S. population (percent, 1871–2006).

Sources: U.S. population: U.S. Census Bureau (2006a), 8; U.S. Census Bureau (2006b). Immigrants: 1870–2004: U.S. Department of Homeland Security (2007); 2005 and 2006: U.S. Department of Homeland Security (2008). For foreign-born: Gibson and Lennon (1999); Batalova (2008).

second waves of globalization, following a path similar to that exhibited by the degree of capital mobility. In the first wave of globalization, the foreign-born population in the United States rose from an average of 6.6 million in the 1871–80 decade to 13.5 million in 1901–10. Immigration flows also increased sharply, from 2.8 million in the 1871–80 decade to 8.8 million in 1901–10 (see Table 4.1a). In the decade prior to World War I (1901–10), the total foreign-born population reached a peak of 14.7 percent of the U.S. population, a proportion that has never been reached since. In turn, in the same decade, total immigration reached a peak of 9.5 percent of the U.S. population (Figure 4.2b). In the interwar (deglobalization) period, the share of total immigrants of the U.S. population declined to less than 1 percent. After World War II and during the entire Bretton Woods period, (legal) migration flows each decade remained low and started to increase more significantly only in the 1980s, reaching more than 3 percent of the U.S. population in the

1990s.<sup>4</sup> Despite this recovery of (legal) immigration in the second wave (as a share of the U.S. population), that share remains well below the average of 7.1 percent of the period from 1870 to 1910, or the peak of 9.5 percent in 1901–10.

In turn, the number of foreign-born people in the United States rose from 6.6 million in 1871–80 to 37.5 million in 2001–06. In 2001–06, the average share of foreign-born people of the U.S. population was 12.5 percent, close to the average share of 14.1 percent in the period from 1871 to 1910.

As also discussed later in this chapter, the source of migrants to the United States has changed, particularly in the past four decades, from European immigration to immigration from Latin America, Asia, and Africa (see [Table 4.1a](#) and [Figure 4.6](#)). The decline in European immigration in the United States is dramatic: From a peak of 8.7 percent of the U.S. population in the first decade of the 20th century, it fell to 0.3 percent in 2001–06 (0.48 percent in 1991–2000). In turn, in the 1990s, the share of (legal) immigrants from Latin America and the Caribbean to the United States is 1.5 percent, higher than immigration from Asia and Africa.

## **4.2 1870–1914: Economic Liberalism in the Era of Empires Propelled the First Wave of Globalization for Labor and Capital Markets**

The 1870–1914 period, characterized by free trade, free capital mobility, and the gold standard (see [Box 4.1](#))<sup>5</sup> has been termed by economic historians as the “first wave of globalization.” The period was accompanied by a large flow of international migration (Hatton and Williamson, 1998). In geopolitical terms, this period was one of a Pax Britannica, with London constituting the financial center of the world, and the British pound prevailing as the dominant currency in the context of the gold standard. The dominance of the British Empire and its balance of power with other empires ensured peace and a respect for rules governing trade, capital movement, and people’s migration.

<sup>4</sup> The decline in immigration from 2001–06 is simply because these are totals for 6 years, whereas the others are totals for decades.

<sup>5</sup> See Eichengreen (1995) for an analysis of the gold standard in this and subsequent periods.

### Box 4.1 The Gold Standard

The gold standard was a monetary system in which the participating countries pegged the prices of their national currencies to a specified amount of gold. The system was designed to link the growth of the money supply to the supply of gold and, in general, to ensure the convergence of prices and inflation rates across countries. The gold standard sharply reduces the discretionary power of Central Banks, although the resource cost of this system is higher than other monetary systems based on fiat money. The gold standard was accompanied by very low rates of inflation and provided a framework of monetary stability for the international economy in the years of the classic gold standard. Between 1880 and 1914, the rate of inflation in the United States averaged 0.1 percent annually.

England adopted a *de facto* gold standard in 1717 and formally opted for the gold standard in 1819. The United States switched to gold *de facto* in 1834 and *de jure* in 1900. Other major economies adopted the gold standard in the 1870s. The period from 1880 to 1914 is known as the “classic gold standard.” The gold standard was abandoned during World War I and reinstated from 1925 to 1931 as the Gold Exchange Standard. In this system, the United States and the United Kingdom held their reserves only in gold, and the U.S. dollar and the British pound were reserve currencies for other nations. In the Bretton Woods system of the period (1946–1971), countries settled their international balances in U.S. dollars, and the United States was committed to redeeming the holdings of dollars for gold at a fixed exchange rate of US\$35 per ounce. On August 15, 1971 the United States announced that it would no longer redeem currency for gold, and the gold standard in this form was abandoned. In periods of increased inflation, there is more attraction to the gold standard, given the remarkable price stability associated with this monetary regime.

Source: Bordo (1981).



### 4.3 Global Capital Markets Moved Freely, Expanding Global Commerce and Transactions

Interest in the exploitation of the abundant and cheap natural resources of the New World and given the immobility of these resources, the countries of the Old World started to invest and export technologies to the countries of the New World, which had a scarcity of capital. These capital flows accelerated after 1870 (see [Figure 4.3](#)), as more and more countries joined the gold standard, initiated by the United Kingdom in 1717. During that time, a growing number of countries became interested in abandoning silver-based money for the credible and stable gold standard as a way to improve their commercial and financial relations with the leading world economic power. But the vast majority of these countries, except those in Western Europe, did not adopt the gold standard until the end of the 19th century. From these national decisions to use gold for global commercial and financial transactions, and in the context of improved technologies in transportation and communications, a new monetary system of fixed exchange rates without capital controls or an active banking role was created. This expanding liberal capital market, linked to more effective national banking systems, allowed for an expanded global commercial network and a wide range of international transactions – bills of exchange, bond finances, equity issues, foreign direct investment, and so forth. Between 1900 and 1914 – the zenith of the classical gold standard – foreign assets were estimated at almost 20 percent of global GDP, while they represented only 7 percent 30 years before (Obstfeld and Taylor, 2004).

Capital flows during this period were characterized by the accumulation of enormous one-way positions and extensive portfolio diversification by the principal creditor countries (particularly Great Britain), and inversely little diversification and high foreign capital “dependence” by the debtor New World countries. For example, foreigners held one-fifth of the capital stock of Australia and owned almost half of the capital stock of Argentina. Even the United States depended on high levels of foreign capital at the end of the century, despite an increase in domestic savings and investments after the 1830s. Thus, gross assets during the period were

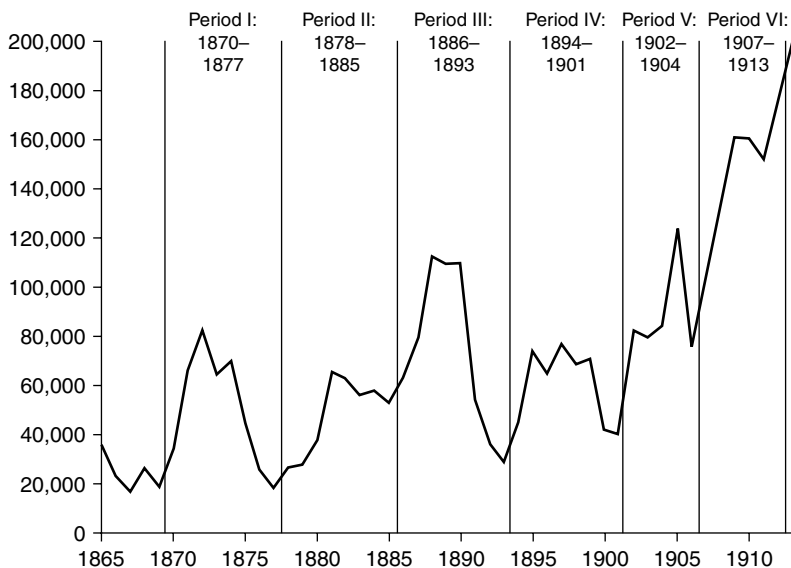


Figure 4.3. Pre-World War I British capital exports in six time periods, 1865–1910. Source: From the book Stone, I. (1999), *The Global Export of Capital from Great Britain, 1865–1914: A Statistical Survey*, St. Martin's Press: New York.

almost equal to net assets. In addition, investments took the form of long-term financing to less-developed countries – “developmental financing.” For example, in 1900, one-third of global assets went to countries in Latin America, and to a lesser extent Asia and Africa. As we discuss later on, the situation is very different in today’s global capital markets.

#### a. London Was the World’s Financial Center

During the period, the most important flow of capital came from Great Britain to the New World countries, more or less following the same path as migratory flows. The city of London constituted the financial center of the global market and was called the “banker of the world.” As Figure 4.3 shows, the main acceleration of British capital exports between 1870 and 1913 took place during the period 1902–13. It is estimated that the surplus of domestic savings over investment in the United Kingdom was approximately 50 percent in the first decade of

the 20th century.<sup>6</sup> The United Kingdom contributed to a peak average of 80 percent of total global foreign investment. For example, between 1907 and 1913, Britain's foreign assets were estimated at £1,127 million, from which 61 percent, or £689 million, went to Canada, Australasia, Argentina, and the United States. This percentage rises to 76 percent, or £857 million, if we add the other countries of Latin America,<sup>7</sup> a region that continued to receive a significant amount of capital until the 1930s.

Germany and France also became important financial centers just before the turn of the 20th century, but did not reach the same level of capital exports as Great Britain. Unlike British capital exports, French and German assets went primarily to European rather than New World destinations, and in small part to poor and labor-abundant countries. Finally, while the United States had always been a debtor country before 1900, it started to become a major assets holder and creditor at the beginning of the 20th century. British capital exports to the United States, Canada, and other New World countries rose sharply at the beginning of the 20th century but later on these flows declined (Figure 4.3). While the sharp increase can be explained in part by the addition of new destinations, such as Japan, Russia, and Turkey (due to a changing political relations), the most important explanation, according to Feis (1930), is that the earlier investments in the New World countries had proved their stability, safety, and profitability and had encouraged more capital exports toward these countries.

#### 4.4 Capital Flows Drove Labor Flows

An important feature of the first wave of globalization is that *both* labor and capital went from Old World European countries to the New World – from northern and southern Europe for migration, and from Britain, France, and Germany for capital flows. The most plausible explanation for this direction of the flow of labor and capital is the attractiveness and “economic opportunity” (discussed in Chapter 3) made available by the

<sup>6</sup> Obstfeld and Taylor (2004).

<sup>7</sup> Taylor and Williamson (1994).

abundance of natural resources in New World countries, including fertile land, minerals, gold, and other resources. In many European countries, labor was abundant and job opportunities were limited. Moreover, in the main capital-exporting countries – England, followed by Germany and France – the supply of national savings exceeded the demand for investment.

One possibility was for financial capital to “stay in Europe,” taking advantage of cheaper labor than in the New World. However, as we discussed earlier, the demand for investment was less than the supply of savings in the main capital-exporting European countries. In addition, the existence of abundant natural resources in the New World created investment opportunities not available at home. The New World’s abundant natural resources and the higher real wages attracted many immigrants from the Old World.<sup>8</sup> (Box 4.2 also provides a different slant on the movement of capital to labor-scarce, resource-rich countries.)

#### **Box 4.2 Why Capital Does Not Always Go to Low-Wage Countries**

That labor moved from relatively lower wage (labor-abundant) European countries to higher wage (labor-scarce) New World countries is understandable, provided that migration regimes were open to (mass) flows of migration, as was the case at that time. However, the direction of capital flows is less obvious.

One question also arises: Why did not capital go (in massive) amounts to poor, labor-abundant countries in Africa, Asia, and Latin America, also with an abundance of natural resources and with lower wages than in the New World countries? The answer is that cheap labor is probably *not* the most important factor governing the direction of foreign investment. Other economic and political conditions in the destination country also count – capital that can be invested productively and earn an attractive rate of return also needs a workforce with adequate skills and

*(continued)*

<sup>8</sup> In the New World, immigration increased the labor supply, augmenting investment and creating housing needs, thereby stimulating economic growth in destination countries.

**Box 4.2 (Continued)**

educational levels, property rights that are enforceable, and institutions that are “friendly” to foreign capital. Apparently, these conditions were more likely to be found in the New World countries than in poor Africa and backward Latin America (with the exception perhaps of Argentina). In addition, we have to remember that several New World countries (Australia, Canada, New Zealand, and the United States) had closer ties with Britain (either from being former colonies and/or members of the British Commonwealth), which was the dominant power at that time and the main source of capital in the world’s economy. Indeed, as indicated in [Table 4.2](#), the labor-scarce New World countries, where only one-tenth of the world’s population lived, received two-thirds of British capital in the 1913–14 period, while labor-abundant Asia and Africa, accounting for two-thirds of the world’s population, received only one-quarter of European foreign investment.

Table 4.2. *Distribution of European foreign investment 1913–14 (percent)*

Destination	Britain	France	Germany
Eastern Europe	3.6	35.5	27.7
Western Europe	1.7	14.9	12.7
Europe (not specified)	0.5	3.3	5.1
Total Europe	5.8	53.8	45.5
Latin America	20.1	13.3	16.2
North America and Australasia	44.8	4.4	15.7
Other New World (not specified)	2.8	0.0	2.1
Total New World	67.7	17.7	34.0
Asia and Africa	26.5	28.4	20.5
Total	100.0	100.0	100.0

Source: O’Rourke, K. H., and J. G. Williamson., *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy*, Table 4.2, page 229, © 1999 Massachusetts Institute of Technology, by permission of The MIT Press.

The savings-investment balance in destination countries is also worth examining. In the New World’s capital-importing countries, national savings fell short of investment. The difference was to be provided by foreign savings or capital imports. Some authors highlight the hypothesis

of higher dependency-rate gaps (i.e., that the dependence of the young/old on working-age family members in the New World was greater than in Old World countries) to explain the relatively lower savings ratios in the New World.<sup>9</sup> This hypothesis predicts that savings ratios would be lower in New World countries that have higher dependency ratios than Old World countries.

#### **4.5 Migration Patterns to Resource-Rich, Higher-Wage Countries: Who They Were and Why They Migrated**

In the age of mass migration, around 60 million people emigrated from resource-scarce, labor-abundant Europe to the resource-abundant, labor-scarce countries of the New World, including Argentina, Australia, Brazil, Canada, New Zealand, and the United States. (Figures 4.4 and 4.5 chart these emigration and immigration flows.) From 1870 to 1920, more than 26 million migrants from all over the world went to the United States. That period, up to the beginning of World War I, also witnessed rapid growth in international trade, buoyed by lower transportation and communication costs with the development of railway systems, steamships, electricity, and the telegraph. Migrants to the New World came from both “core Europe” (England, Germany, and France) and “peripheral Europe” (the relatively poorer Scandinavian countries, Spain, Italy, Portugal, Poland, Russia, Rumania, and the former nations of the Austro-Hungarian empire). In Latin America (as discussed in Chapter 5), the main destination country for emigrants from Europe, primarily Spaniards and Italians, was Argentina, which received nearly 7 million immigrants (about 4 million of whom returned back home, mostly in the 1920s).<sup>10</sup> Other countries that received a relatively considerable number of European migrants were Uruguay, Cuba, Mexico, and Chile.

*A short demographic profile of those who came.* Two-thirds of the migrants during this period were male and unmarried, who traveled

<sup>9</sup> Taylor and Williamson (1994).

<sup>10</sup> See Solimano (2005) and Maurizio (2008) for an analysis of immigration and emigration from Argentina throughout the entire 20th century. Also see Taylor (1994a, b) for an analysis of migration patterns to Argentina to the 1930s.

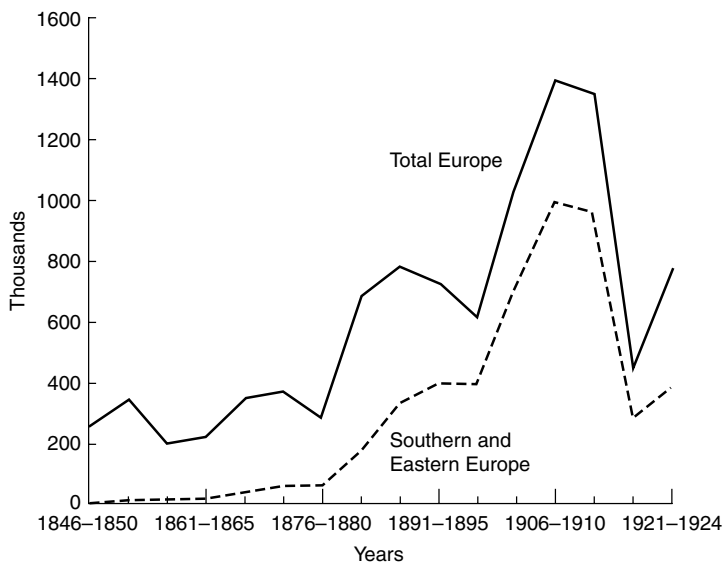


Figure 4.4. Emigration from Europe, 1846–1924 (five-year averages).  
 Source: Hatton, T. J., and J. G. Williamson, *Global Migration and the World Economy: Two Centuries of Policy and Performance*, MIT Press: Cambridge. Images: figures 2.1 & 2.2, pages 12 & 13.

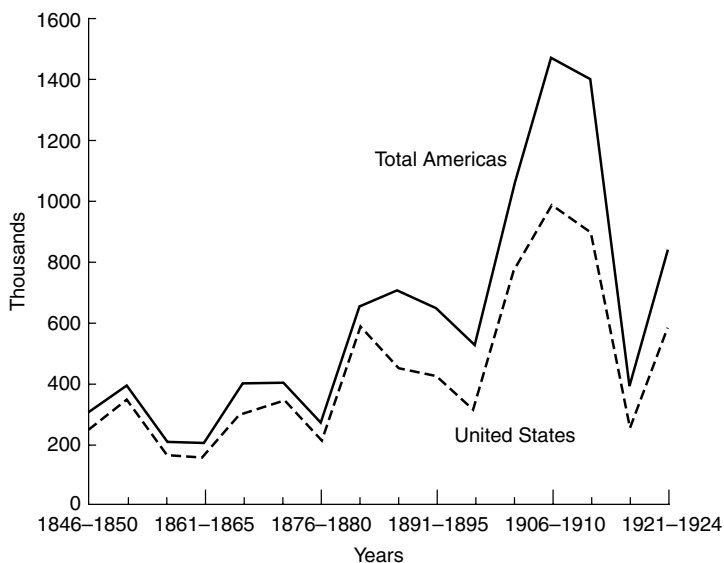


Figure 4.5. Immigration to the Americas, 1846–1924 (five-year averages).  
 Source: Hatton, T. J., and J. G. Williamson, *Global Migration and the World Economy: Two Centuries of Policy and Performance*, MIT Press: Cambridge. Images: figures 2.1 & 2.2, pages 12 & 13.

without other family members.<sup>11</sup> More than three-quarters of the immigrants to the United States were young (16 to 40 years of age). While a large number of migrants came from cities, the majority still came from the countryside, particularly those from Southern and Eastern Europe.<sup>12</sup> In addition, migrants were increasingly unskilled and unschooled workers, as the source of migration changed for Southern and Eastern Europe during the period. This migration of unskilled and unschooled workers largely and definitively ended by World War I.<sup>13</sup>

*Why they came.* An important force behind the direction of international migration flows (as discussed in [Chapter 2](#)) were the significant per-capita income differentials between peripheral European countries and the United States, Canada, Australia, and other countries of the New World during this period. For example, the average real-wage index in European countries in 1870 was 43, and in 1913 was 77 (with Great Britain equal to 100 in 1905) ([Table 4.3](#)). In those same years, the real-wage index in New World countries (the average of Argentina, Australia, Brazil, Canada, and the United States) reached 88 and 139, respectively. Thus, real wages in the New World were significantly higher than in Europe, motivating labor migration from Europe to the New World. Moreover, per-capita GDP and GDP per worker-hour (proxying income per capita per worker) demonstrate that living standards were better and productivity greater in the New World countries.<sup>14</sup> In turn, migration between the Old and New Worlds helped reduce wage gaps, enhancing income convergence between the two regions. At the level of individual countries, the per-capita income level of Argentina was approximately 30 percent *higher* than in Spain and Italy in 1913. These income gaps created strong economic incentives for international migration to Argentina. Uruguay also had higher per-capita income than Spain and Italy in 1913, and Chile was also at the same per-capita income level as Spain and Italy. Indeed, the main real-wage divergence

<sup>11</sup> Interestingly, as we discuss in [Chapter 5](#), the proportion of female migration from and to Latin America in the late 20th and early 21st centuries climbed to more than 50 percent.

<sup>12</sup> Chiswick and Hatton (2003).

<sup>13</sup> O'Rourke and Williamson (2000).

<sup>14</sup> O'Rourke and Williamson (2000).



Table 4.3. *Living standards and productivity, 1870–1913*

Country	Real Wages (Great Britain 1905 = 100)		GDP Per Capita (1990 US\$)		GDP Per Worker-Hour (1990 US\$)	
	1870	1913	1870	1913	1870	1913
<b>European Periphery</b>						
Austria	NA	NA	1 875	3 488	1.39	2.93
Denmark	36	102	1 927	3 764	1.51	3.40
Finland	NA	NA	1 107	2 050	0.84	1.81
Ireland	49	90	NA	NA	NA	NA
Italy	26	55	1 467	2 507	1.03	2.09
Norway	32	93	1 303	2 275	1.09	2.19
Portugal	18	24	1 085	1 354	NA	NA
Spain	30	39	1 376	2 255	NA	NA
Sweden	28	98	1 664	3 096	1.22	2.58
Average	31	72	1 476	2 599	1.18	2.50
<b>European Industrial Core</b>						
Belgium	60	94	2 640	4 130	2.12	3.60
France	50	66	1 858	3 452	1.36	2.85
Germany	58	92	1 913	3 833	1.58	3.50
Great Britain	67	98	3 263	5 032	2.61	4.40
Netherlands	57	78	2 640	3 950	2.33	4.01
Switzerland	NA	NA	2 172	4 207	1.75	3.25
Average	58	86	2 414	4 101	1.96	3.60
Europe	43	77	1 878	3 242	1.57	3.05
<b>New World</b>						
Argentina	61	92	1 311	3 797	NA	NA
Australia	127	128	3 801	5 505	3.32	5.28
Brazil	39	87	740	839	NA	NA
Canada	99	219	1 620	4 213	1.61	4.21
United States	115	169	2 457	5 307	2.26	5.12
Average	88	139	1 986	3 932	2.40	4.87

Source: O' Rourke, K. H., and J. G. Williamson., *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy*, Table 2.1, page 17, © 1999 Massachusetts Institute of Technology, by permission of The MIT Press.

existed between the Old World and the New World, rather than within the Old World or within the New World.<sup>15</sup>

However, although an important majority of migrants went from the Old World to the New World, a considerable flow of labor still

<sup>15</sup> Williamson (1992).

occurred within the Old World and within the New World. For example, Great Britain received a large portion of Irish migrants, and many Eastern Europeans went to Western European countries. In the 1890s, more than half of Italian migrants chose European destinations, primarily France and Germany. France and the Netherlands also received many migrants from Belgium. In the New World, there was an important flow of migration from Canada to the United States, especially before the turn of the century.<sup>16</sup> Finally, migration also occurred in other parts of the world – for example, from Europe (particularly from the Netherlands and Great Britain) to Southern and Eastern Africa and to South Asia, and also from Asia (particularly from China, India, and Japan) to East Africa, Southeast Asia, the Pacific islands, the Caribbean, and the west coast of North America.<sup>17</sup>

Box 4.3 (which contains Figure 4.6) provides a broad overview of the origins of immigrants to the United States during all four periods. While we present it here as a textual highlight, the patterns are useful for the ensuing discussions of each major period.

#### **Box 4.3 Immigration to the United States by Region of Origin**

It is interesting to note that from 1870 to the 1950s, immigration to the United States was predominantly from Europe, with a rising path during the first wave of globalization, reaching a peak by around 1910, and starting to decline up until the late 1930s; thereafter, it recovered, but stabilized at a much lower level in the following decades than in the first wave of globalization. Since the 1960s, a “Latin Americanization” of migration to the United States has come about, as the flow of immigrants from this region has overtaken immigration from other regions, including Europe, a trend that accelerated in the 1980s, 1990s, and 2000s (see Chapter 5 for a more in-depth analysis of Latin American immigration patterns).

<sup>16</sup> Hatton and Williamson (1998).

<sup>17</sup> Chiswick and Hatton (2003).

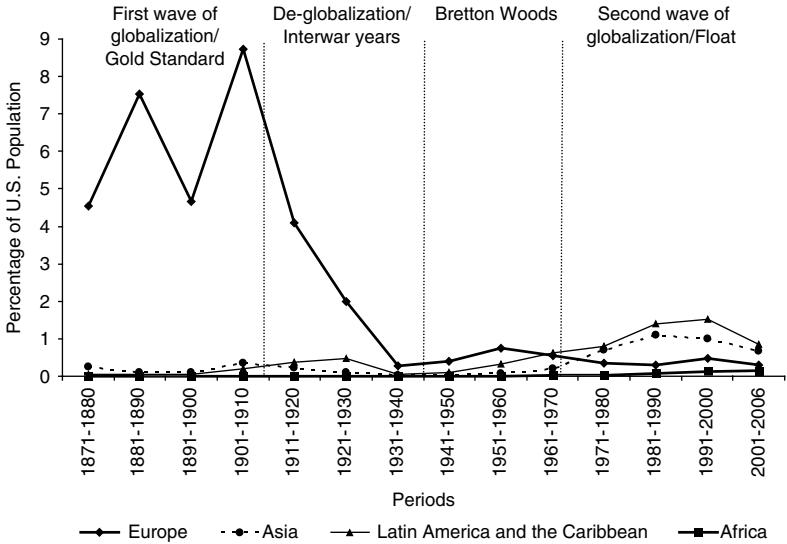


Figure 4.6. Immigration to the United States by region of origin (share of U.S. population, decade totals, 1871–2006).

Source: U.S. population: U.S. Census Bureau (2006a), 8; U.S. Census Bureau (2006b). Immigrants: U.S. Department of Homeland Security (2007; 2008). Immigrants: 1870–2004: U.S. Department of Homeland Security (2007); 2005 and 2006: U.S. Department of Homeland Security (2008).

**a. Liberal Immigration Policies and Politics Gradually Became More Restrictive toward the End of the Period, Affecting Migration Patterns**

Although immigration policies in the countries of the New World promoted and encouraged international migration in response to the need for increased labor supply to support rapid economic expansion, these policies gradually became more restrictive toward the end of that century and the early 20th century, particularly in the 1910s and 1920s.<sup>18</sup> Ethnic discrimination (against migration from Asia, particularly from China) was a common practice, especially in Australia, Canada, and the United States, a feature seemingly absent in Argentine and Brazilian immigration policies at that time.

<sup>18</sup> The main reference on immigration policies of New World countries during the first wave of globalization is Timmer and Williamson (1996). Other sources are Holloway (1997) for Brazil, and Solberg (1970) for Argentina and Chile.

Several New World countries (such as Argentina) set up immigration agencies in European countries to attract and facilitate immigration flows to augment their labor supply and support rapid economic expansion. By the mid-19th century, the Argentine government had granted land to immigrant settlers, and the government financed the costs of moving and housing them. Moreover, automatic Argentine citizenship was granted to immigrants. The pro-migration climate of the ruling elite in Argentina at that time was captured by the phrase, coined by the Argentinean thinker Juan Bautista Alberdi, "To Govern Is to Populate."<sup>19</sup> Gradually, however, policies supporting immigration became less generous. In 1916, new legislation introduced restrictions on different classes of immigrants (e.g., disabled people, unaccompanied women with children, and so forth), and by the 1920s policies became definitely less favorable for immigration, in the fear that immigration was stunting the living standards of domestic labor.

Again, ethnic discrimination against migration from Asia, particularly from China, was a common practice in several destination countries. In the second half of the 19th century, U.S. immigration legislation went through several changes. To begin with, immigration policy became federal rather than state legislation. The 1882 Chinese Exclusion Act passed by the U.S. Congress blocked Chinese migration for nearly 80 years until the 1965 Immigration Act removed the discriminatory quota system. American historian L. Ling-chi Wang (2003) notes:

America was open to everybody who wanted to come. We welcomed everybody. The only people we excluded by law at that time were prostitutes, lepers, and morons, and in 1882 we added Chinese to that list.<sup>20</sup>

In 1917 a new Immigration Act established a literacy test for immigrants, and in 1921 quotas were established to restrict immigration. In general, immigrants from Canada, Mexico, Central America, and the Caribbean to the United States were treated more favorably than immigrants coming from Asian countries. The U.S. Immigration Committee published a 41-volume report in 1911, drawing a sharp

<sup>19</sup> Solberg (1970).

<sup>20</sup> Source: [http://www.pbs.org/becomingamerican/ap\\_prog1.html](http://www.pbs.org/becomingamerican/ap_prog1.html)

distinction between the old immigrants (those from Belgium, Great Britain, Ireland, France, Germany, the Netherlands, Scandinavia, and Switzerland) and the new (those from Austria-Hungary, Bulgaria, Greece, Italy, Montenegro, Poland, Portugal, Romania, Russia, Serbia, Spain, and Turkey). The commission presented a report negative to new immigration, concluding that “the new immigrants on the whole were ‘far less intelligent’ and were ‘actuated by different ideals’ than the old immigrants.”<sup>21</sup> Immigration was perceived as keeping real wages down and increasing domestic inequality. During the period, strong labor unions held an attitude just as unfriendly to immigration, perceiving it as inhibiting a steadier improvement in living standards among the American working class.

In Australia, immigration policies in the 19th century tended to favor those coming from British Commonwealth countries by subsidizing the transportation of immigrants and supporting them at arrival. At the same time, Australia restricted the immigration of Chinese citizens through taxes and quotas. Some of these laws were repealed afterward and then adopted again. In the early 20th century, Australian naturalization laws became aligned with England’s.

Brazil also encouraged migration and settlements by granting subsidies, special stipends for acquiring land, and other budgetary support. For Brazil, immigration helped substitute for a labor supply, lost with the abolition of slavery in the late 19th century, for the sugar-producing areas (northeast) and coffee-producing areas in the São-Paulo province.<sup>22</sup> Later on, as with Argentina and Australia, Brazilian legislation became more restrictive in the first two decades of the 20th century.

In Canada, parliament had already granted autonomy to the provinces by 1860 to handle immigration issues and policies. Land was offered at reduced prices to encourage immigrants to settle in Canada. In 1910 immigration from Asian countries was restricted through a head tax that was higher than that applying to immigrants from non-Asian countries.

<sup>21</sup> Hatton and Williamson (1998).

<sup>22</sup> Holloway (1997).

#### **4.6 1913–1945: Deglobalization: Economic Instability and Political Turbulence Disrupted Global Markets and Restricted Immigration Flows**

World War I interrupted the process of economic interdependence and labor-market integration across countries that characterized the first wave of globalization. Beginning in 1914 with the onset of World War I, a period of deglobalization commenced, culminating in nearly 30 years of economic instability (high inflation, macroeconomic volatility, and the disintegration of capital markets) and political turbulence: the Russian revolution of 1917, failed socialist revolutions in Hungary and Germany in the late 1910s, and the rise of Fascism and Nazism in Italy and Germany in the 1920s and 1930s.

After World War I, the main European empires had disintegrated: the Romanov after the Russian revolution of 1917, the Ottoman Empire, the Austro-Hungarian Empire of the Habsburg monarchy, and the German Empire. In the years to come, recomposing a stable economic and geopolitical equilibrium proved to be exceedingly complicated.

##### **a. Global Capital Markets Were Disrupted**

The economic “order” of the interwar period was very different from that of the pre-1914 years. The growing power of labor unions, the emergence of populism and nationalism, the demands for democratization already present at the beginning of the century but now more difficult to steer, all made the restoration of the pre-1914 economic order an ephemeral and ultimately futile goal, given the now prevailing socio-political equilibrium. Attempts at restoring the gold standard in the mid-1920s – in a political and social context in which wage flexibility and fiscal discipline was difficult to enforce and which was incompatible with exchange-rate stability and free capital mobility – ultimately proved futile. The prerequisites for a reasonably well-functioning gold standard simply did not exist. In addition, the economic policies of World War I, based on price and foreign exchange controls and necessitating large fiscal deficits, were not favorable to the development of capital markets, always distasteful of controls and fiscal imbalances. The 1920s also saw

episodes of hyperinflation in Austria, Germany, and Hungary, which were subsequently stabilized under the supervision of the League of Nations.<sup>23</sup> Although economic stabilization proved successful at reducing inflation, it was unable to bring an orderly exchange-rate system and lasting prosperity to Europe.

In the early 1930s, many countries abandoned the gold standard, depreciated their currencies, and imposed tighter capital controls in order to concentrate on economic goals at the domestic level, such as high employment and growth. The “trilemma” of fixed exchange rates, free capital mobility markets, autonomous monetary policies combined with independent isolationist economic policies, was tilting toward a fourth consequence – the sacrifice of free capital mobility. As Taylor (1999) states:

The literature on the collapse of the interwar gold standard indicates that various forces – including crises of expectations, asymmetries in the equilibrating mechanism, recent memories of hyperinflation in some countries, increased speculation in expanding future markets, and temptations for competitive devaluation – all rendered the gold standard “unsafe for use” in the 1920s and 1930s, at least when governments came under increased pressure after 1929 to engage in macroeconomic management to stave off the threat of deflation and depression. (p. 7)

As a result, capital flows fell dramatically. While the average annual flow of capital from Britain, France, Germany, and the United States to the rest of the world was US\$1.4 billion between 1911 and 1913, it fell sharply to US\$860 million in 1924 and US\$550 million in 1928. Moreover, the United States took the place of Britain as “banker of the world” and became the most important foreign creditor, with New York City assuming the role as the New World’s financial center. Between 1924 and 1930, for example, the United States assumed 60 percent of global capital flows, estimated at US\$9 billion and possibly as much as US\$11 billion, while US\$1.3 billion and US\$1.34 billion came from Britain and France, respectively. During the interwar period as well, Germany received the larger part of these capital exports so that it could reconstruct its infrastructure damaged during World War I.<sup>24</sup>

<sup>23</sup> Solimano (1991) analyzes League of Nations–led stabilization policies in Central Europe in the 1920s.

<sup>24</sup> James (2001).

When the Great Depression hit, private international capital flows were regarded with suspicion by policymakers. In addition, the real-wage convergence gained prior to World War I was lost with the Great Depression, reaching in 1945 the wage dispersion of the late 1870s.<sup>25</sup>

In the 1930s and 1940s, private capital flows had become minimal. By 1930, foreign assets represented just 8 percent of world output. Although they increased to 11 percent in 1938, they then fell to only 5 percent in 1945 at the end of World War II.<sup>26</sup> Indeed, after the crisis of 1931, long-term capital flows practically ceased, and about US\$3.5 billion shifted back to the United States and Britain in reaction to economic instability and anticipated war in Europe.<sup>27</sup>

#### b. A Backlash against Globalization Restricted Immigration Flows but Did Drive Political Migration

The instability of the 1920s, the Depression of the early 1930s, and an anti-globalization sentiment (without that name) were all inimical to the free mobility of people and capital across national boundaries that characterized the pre-1914 period. In this environment, there was a proliferation of immigration quotas, visa systems, ethnic discrimination, tariffs, and restrictions on international capital flows, competitive devaluations, and other autarkic policy interventions.

The interwar years were, in practice, “unfriendly” to the international mobility of labor and capital. Moreover, during the interwar years important changes took place regarding migration and capital flows. First, the United States became the *most important net capital exporter* in the world economy, replacing England in that role, although this trend had already begun at the end of the previous period. A second important change during this period was that European migration to the New World definitively stopped and even reversed to become intra-continental. Forced movements of population among countries also took place following political and ethnic persecution in Europe, particularly in the 1930s and early 1940s.

<sup>25</sup> Williamson (1992).

<sup>26</sup> Obstfeld and Taylor (2004).

<sup>27</sup> James (2001).



In 1921 and 1924, the United States enacted immigration quotas and, with them, migration flows to the United States fell sharply during the interwar period, reaching their lowest level during the Great Depression years of the 1930s (see [Figure 4.6](#)). Indeed, in some years of that decade, emigration from the United States to Europe reached higher levels than emigration from Europe to the United States.<sup>28</sup> James (2001) has estimated that the flow of immigrants from Europe declined from nearly 1 million migrants each year to around 350,000 between 1921 and 1924. But the United States was not the only country restricting immigration flows. Canada also enacted a list of “preferred source countries” for immigrants (the “non-preferred” countries were those in Southern and Eastern Europe). In this North American policy climate, migrants coming from the Old War started to move to Brazil and Argentina instead. In the 1920s, for example, Argentina saw an influx of around 3 million immigrants from Europe (although, again, as many as 2 million returned afterward). European migration also turned intra-continental, with France as the largest and most open recipient of migrants, and Italy as the main origin country of migration to France. At the same time, the Soviet Union enacted *emigration* restrictions that reduced the country’s share in global migration flows to the Americas. In the early 1930s, South Africa also strongly discouraged immigration, and Australia, which had powerful labor unions, restricted immigration from Eastern Europe and Italy.

Besides the rise of nationalistic ideologies, the interwar years were isolationist and anti-trade and anti-immigration because of a globalization backlash. A world of passports and visas became pervasive in those years (see [Chapter 1](#)). Hostility to economic globalization, particularly toward the late 1920s, was based on the perception that globalization brought inherent instability and volatility to populations already exhausted by economic insecurity and political turbulence in the 1920s. In the 1930s, the Great Depression further contributed to this belief. Globalization in that period was perceived as a failed system because “humans and the institutions they create cannot handle the psychological and institutional consequences of the interconnected world.”<sup>29</sup> This interesting comment is also relevant to today’s globalization.

<sup>28</sup> Chiswick and Hatton (2003).

<sup>29</sup> James (2001, 4–5).

Another factor that created an atmosphere hostile to globalization was the rise of domestic inequality between citizens.<sup>30</sup> Economic historians Hatton and Williamson state that this rise was another factor that contributed to the breakdown of globalization in the interwar years:

It appears that the inequality trends that globalization produced are at least partly responsible for the interwar retreat from globalization manifested by immigration quotas, tariffs, restrictions on international capital flows, competitive devaluations, and other autarkic policy interventions. This fact should make us look to the next century with some anxiety: will the world economy retreat once again from its commitment to globalization? (Hatton and Williamson, 1998, 248)<sup>31</sup>

#### 4.7 Rising Nationalism Was an Important Determinant of Migration Flows during the Period

The inauguration of the League of Nations marked a new system of power in European relations, driven by the quest for economic stability and collective security. For the previous 300 years, Europe's geopolitical system was predicated on balance of power and alliance. The Austrian social scientist Karl Polanyi (1994) has highlighted the equilibrium among great powers in the 19th century as an important factor that helped maintain international peace from 1815 to 1914. However, the League of Nations proved unable to fulfill the underlying premise of collective's security – to prevent war and to resist aggression collectively. Its failure became manifest in the League's inability to respond to the Japanese invasion of Manchuria in 1931, and to the 1935 Italian invasion of Abyssinia, the last independent African nation. Without an effective global security system, Germany, under the leadership of Gustav Stresemann (Germany's Foreign Minister and then Chancellor in 1923 until his death in 1929), was able to rearm successfully and quickly.

<sup>30</sup> To counteract inegalitarian trends, some European governments tightened immigration policy and increased social spending. In France, social services accounted for 4.3 percent of central government expenditures in 1912, but 21.7 percent in 1928; the comparable figures for Germany are 5.0 percent and 34.2 percent, respectively (see James, 2001).

<sup>31</sup> Solimano (1998; 2001) provides further analysis of inequality issues.

In the interwar years, “political migration” became an important feature of the international mobility of people. It began with the Bolshevik Revolution in 1917, which led to significant emigration flows from Russia in the initial years of the revolution. But the failure of the League of Nations to provide global security was, in fact, a red carpet for a number of growing nationalist movements, including Nazism in Germany and Fascism in Italy.<sup>32</sup> Rising nationalism and xenophobia in Germany led to emigration flows, mainly of the Jewish population. This climate led to the emigration of Jewish minorities in Central Europe to Britain and to North and South America as intolerance and anti-Semitism festered and then exploded. Many Jewish intellectuals and scientists emigrated to the United Kingdom and the United States. General Franco’s Spain in the late 1930s also ignited a massive emigration of defeated Republicans and their families from newly authoritarian Spain. The initial destination for exiled Spaniards was France, and then many emigrated to Mexico, Argentina, Chile, and other Latin American countries.

Although the rise of extreme nationalism in the form of fascism, Nazism, and other national movements in former Austrian-Hungarian countries was not a completely new phenomenon in Europe (see [Box 4.4](#)), it reached proportions unheard of in the 1930s, primarily in Germany. The nationalist movements that grew in Europe at this time contributed to the animosity that exploded into World War II.

Ironically, while many people were fleeing Nazi Germany and fascist Italy, both regimes were justifying their drives to conquer new territory by reasoning that they had to support a labor-abundant, land-scarce population. Nazi and fascist leaders saw territorial expansion as a substitute for emigration. In this vein, Mussolini justified the Italian invasion of Abyssinia as a search for an outlet in Africa for his surplus Italians. In turn, Hitler maintained that his people, who he deemed superior to others, had the right to expand their nation-state and territorial holdings

<sup>32</sup> James (2001) asserts that two distinct processes drive nationalism. First, nationalism is an attempt by a state to formulate identities and commonalities in response to an external threat or the perception of a threat. He notes that this process can easily translate into xenophobia (and has). Second, nationalism is a (peculiar) process of institution building, which is justified by the typical political construct of the 19th century that a nation-state evolved as a defensive mechanism against threats to internal stability from the outside.

#### Box 4.4 European Nationalism

Nationalism is a form of individual (or collective) consciousness in which people believe their primary duty and loyalty is to the nation-state. Often, nationalism implies national superiority and glorifies various national virtues, a process that can lead to racism and xenophobia. England and the United States are examples of civic, individualistic nationalisms. France is an example of a civic, collectivistic nationalism. Germany and Russia are examples of ethnic, collectivistic nationalisms.

The roots of European nationalism that emerged in the interwar period in the virulent forms of fascism and Nazism can be traced back to 1848 and the fall of Prince Klemens von Metternich of the Hapsburg Dynasty. The revolutions of 1848 fomented the drive for nationalism that re-emerged in new forms in the interwar years. Nationalist movements in Europe, from countries seeking a national identity and autonomy, grew out of various developments that accompanied the formation of the nation-state, such as a vast demographic revolution that doubled Europe's population between the 18th and late 19th centuries, driving tens of millions of people from rural land into cities and across oceans and countries, in the great migrations beginning in 1800. Historians point out that Irish nationalism derived from overpopulation and famine, and centered on a hatred of the British, while German nationalism was rooted in Prussia's humiliation of its old enemy, France, in 1870. In turn, the large reparations imposed on Germany in the Treaty of Versailles, forcefully denounced as counterproductive by John Maynard Keynes in his famous book *The Economic Consequences of Peace*, gave rise to resentment and virulent nationalism and the Nazi ideology in Germany in the 1920s and 1930s.

to maintain a steady standard of living if population growth infringed on this standard of living.<sup>33</sup> Germany's policy of *Lebensraum* in the east

<sup>33</sup> In *Mein Kampf*, Hitler cites the "populist" ideology that Germany needed more land to support a growing population. "The right to possess soil can become a duty if without the extension of its soil a great nation seems doomed to destruction." See Kershaw, (1999) for an extended discussion of Hitler's gall.

led to the annexation of Austria and Czechoslovakia in 1937, complemented by the forced emigration of 1 million Austrians and 2 million Czechoslovakians.<sup>34</sup>

#### **4.8 1945–1971/73: Reconstruction and the Bretton Woods Era Brought Stability to Incipient Capital Mobility and Provided a Basis for Accelerating Immigration in Today’s World**

As World War II was coming to its tragic but merciful close, a consensus among the victorious countries, primarily the British and Americans, was that economic reconstruction and global stability required a new set of political and financial institutions at the international level. Global capitalism without an institutional framework to help preserve international trade, monetary stability, and financing for reconstruction and development was an inherently unstable system, one that was prey both to periods of volatility and inflation, as in the 1920s, and to periods of economic contraction and unemployment, as in the 1930s.

As such, the United Nations was created by its member countries to promote world peace and boost economic development in less-advanced regions of the world. A new set of global financial institutions emerged in the mid-1940s, known as the Bretton Woods Institutions, shaped largely under the dictum of the United States and the United Kingdom, personified in their key representatives, Harry Dexter White and John Maynard Keynes, respectively. The International Monetary Fund was given the mandate of ensuring an orderly payments system under a system of fixed exchange rates, and providing external financing to countries running balance-of-payments deficits. Private capital movements were to be closely restricted, but this regime started to be relaxed in the 1970s to follow an active international capital market in the following decades, although accompanied by frequent currency and financial crises. The role of the World Bank was to provide long-term financing for economic reconstruction and development, chiefly through the financing of

<sup>34</sup> James (2001).

infrastructure. A global trade organization was proposed but not acted until the mid-1990s, with the creation of the World Trade Organization. Instead, the International Labor Office was founded in 1919 and still functions on the basis of tripartite representation of labor union organizations, employer associations, and governments.

With the end of World War II, the economic reconstruction of Europe and the resurrection of trade and investment relations among nations in the second half of the 1940s and early 1950s gave rise to a new period of economic prosperity and stability in the global economy. This period of *Pax Americana* and “golden age of capitalism” combined various features, some of them already mentioned in this chapter: (1) a monetary system of fixed exchange rates, with the U.S. dollar as the global reserve currency (see [Box 4.1](#)); (2) the gradual opening of trade regimes; (3) restricted private capital mobility; (4) restricted immigration regimes; (5) the expansion of the welfare state in advanced economies and the “developmental state” in developing countries; (6) the adoption of generally activist Keynesian policies of demand management to maintain full employment in industrial countries; and (7) a relatively active role by the state, varying across countries, in promoting employment, industrialization, urbanization, and social development in developing countries.

In this period, economic growth, job creation, and social protection were pursued in terms of active state policies at the national level. The linkages of the national economy with the international economy in the Bretton Woods era was managed and regulated. In this period, international trade was promoted, but trade regimes were not very liberal. Pervasive systems of import tariffs and import quotas existed in the developing world, and although trade regimes in advanced countries were more open, they were far from *laissez-faire*. The international financial system was to be dominated by official government financing, and the private sector could play a role primarily by providing foreign direct investment rather than short- and medium-term lending and portfolio investment. International migration was kept restricted and exhibited a gradual increase between 1945 and about 1980, and accelerated thereafter.

#### **4.9 1971/73–Today: The Second Wave of Globalization – Floating, Freer Capital Mobility Has Been Accompanied by Rising Migration**

Post–World War II reconstruction slowly yielded to a freer flow of capital and labor. As important, the balance between nationally defined economic policies and international policy regimes switched to the second phase of the post–Bretton Woods period. A key turning point was the abandonment of the free convertibility of the U.S. dollar to gold and the replacement of a system of fixed exchange rates among main currencies to a system of floating exchange rates. This process, along with the unfolding of international capital markets associated with the two oil shocks of the 1970s, exerted strong pressures to liberalize international capital markets, which also led indirectly to pressures to adopt more liberal trade regimes, reducing import tariffs, quotas, and other trade restrictions, particularly in developing countries. Therefore, since the 1970s and 1980s, the world economy is much more open to capital movement and trade than in any previous decade since World War II.

However, as mentioned in [Chapter 1](#), migration has largely remained excluded from the agenda of global economic liberalization, even while the realities of large international differences in developmental levels, per-capita incomes, and wages in the 1980s, 1990s, and 2000s increased the economic incentives for people to move across country borders – even despite the fact that immigration regimes in wealthy countries are not particularly friendly for immigrants from the developing world. Ultimately, the growing significance of illegal migration reflects the lack of more open migration regimes in a world in which international disparities in living standards across countries generate powerful incentives for international migration.

#### **4.10 Capital Flows in the Second Wave of Globalization Have a Different Direction, Composition, and Origin than in the First Wave**

Confidence in global capital markets was greatly boosted by the collapse of communism and the growing enthusiasm with free-market economics

promoted by the United States. Advanced economies began integrating their capital markets with each other much more rapidly than did developing countries. Capital account liberalization among advanced countries was a process that began in the 1970s and was fully completed in the 1990s. Several Latin American countries and other developing nations, although opening their economies to private capital inflows in the 1970s, suffered debt crises in the early 1980s that induced them to slow down or even reverse their capital account convertibility. In the 1990s, capital account convertibility became more advanced in developing countries but cautiously so, due to the frequency of financial crises that also occurred during that decade (including Mexico from 1994–95; Asia in 1997; Russia in 1998; Brazil in 1999; Turkey in 2001; and Argentina from 2001–02).<sup>35</sup> Wealthy countries, as shown in [Chapter 3](#), were also not immune to currency and financial crises.

Financial integration in the post-1980 period exhibits various features that differentiate it from the pre-1914 period of highly mobile international capital. The first difference is the direction and composition of capital flows. In the pre-1914 period, most capital inflows were unidirectional and took the form of long-term financing. As Obstfeld and Taylor (2004) note, the United Kingdom, France, and Germany (the main capital exporters at that time) took dominant one-way positions in their portfolios. The exception was the United States, which had both large capital outflows and large capital inflows.

An important difference with the first wave of globalization is that, today, most capital flows between advanced countries. At the turn of the 20th century, less-developed countries in Asia, Latin America, and Africa received 33 percent of global financial liabilities. In 1990, only 11 percent of global liabilities went to these same countries. These are countries that not only account for the bulk of the world's population, but also produce a significant part of the world's output.<sup>36</sup> Today, capital flows and foreign investment are also aimed at risk sharing and diversification, rather than at long-term financing to build infrastructure and housing, as was the case in the pre-1914 world. The direction of international

<sup>35</sup> See Eichengreen (1995) and Obstfeld and Taylor (2004) for an in-depth discussion of global capital markets and international monetary systems in general.

<sup>36</sup> Obstfeld and Taylor (2003).



capital flows today fits well with the so-called “Lucas Paradox” – the empirical finding that too little capital is flowing to capital-scarce, poor countries – capital that, in principle, would have yielded higher rates of return given that capital scarcity. This phenomenon of too little capital flowing to poor countries can be explained by various factors, including a poorly educated and trained work force, the absence of enforceable property rights and transparent bureaucratic procedures, political instability, corruption, weak institutions, and small domestic markets (see [Box 4.2](#)). The literature of growth under increasing returns suggests that capital, skilled labor, and superior institutions tend to go together and concentrate in a certain group of countries.<sup>37</sup> This important result can help explain why migration and capital flows tend to go together rather than move in opposite directions.

The second difference between the first and second waves of financial globalization is the importance of capital flows as a proportion of savings and investment in origin and destination countries.<sup>38</sup> Although financial globalization has expanded rapidly since the 1970s and 1980s, in relative terms it is lower than in the pre-1914 world. For example, Obstfeld and Taylor (2004) report that from 1900–13, overseas investment represented about one-half of domestic savings in the United Kingdom (and one-third, on average, between 1870 and 1914). In another capital-exporting country, Germany, overseas investment represented about 10 percent of national savings from 1910–13. In Argentina, in turn, around 50 percent of the capital stock (machinery, equipment, and structures) in 1914 was owned by foreigners, suggesting a high degree of foreign financing, and ultimately ownership, of investment in that period. These numbers are much lower in the new wave of globalization. In fact, the ratio of net capital outflows to savings in capital-exporting

<sup>37</sup> Easterly (2001).

<sup>38</sup> Another way to see the degree of integration in international capital markets is by investigating the correlation between investments and national savings. If a small direct correlation exists between national savings and investment, so that it can be financed in international capital markets, then the degree of capital market integration is inferred to be high. Several studies have tested the correlation between national savings and investment and found that global financial markets are *not* more integrated today than they were at the beginning of the 20th century (Solimano and Gutierrez, 2006 and 2008).

countries has never exceeded 5 percent since 1970 (although this net amount has been influenced by the large, current account deficits of the United States). And capital inflows during the same period have never exceeded an average of 15 percent of investment in capital-importing countries.

A third difference between the first and second waves of globalization is that financial hegemony in the second wave rests with the United States; in the first wave, Britain was the financial hegemonic country, a status that vanished after World War I. However, the financial hegemony of the United States, defined as a net creditor country to the rest of the world (as was Britain during the gold standard), has started to erode in the past two decades. During most of the 20th century, the United States was the main net capital exporter of the world economy; since the 1980s, however, the country has started to run current account deficits, importing savings from the rest of the world to finance a level of expenditure above its real output. It may be argued that the status of the United States as a net importer of capital (and a net importer of people – that is, a net immigration country) is not a bad thing and can simply reflect the fact that the U.S. economy continues to be a “place of opportunities” and, given its size and economic power, also a safe place for investing and working, thereby attracting both capital and labor from other parts of the world. However, being a net international debtor nation, particularly after the large current account deficits of the 2000s, makes the country potentially vulnerable to adverse financial shocks and changes in confidence in the U.S. economy. Moreover, observers have pointed out that a net debtor status could be inconsistent with its status as the main military superpower.

#### a. Managed Migration Has Yielded to Growing Pressures for People’s Mobility

Several features of the “new” international migration should be highlighted. One, the migration policies in the main destination countries are less liberal in the current wave of globalization than in the first wave of the late 19th century. Still, actual migration flows to North America, Europe, and other wealthy OECD economies are on the rise.

Two, the Latin-Americanization – some would say a Mexicanization – of immigration to the United States has grown in the past three to four decades, displacing the early immigration from Europe to the United States. In the 1820–1920 period, European migration to the United States represented approximately 88 percent of total immigration; in 1971–98, the percentage of European migration declined to approximately 14 percent.<sup>39</sup> An important factor behind the Latin-Americanization of immigration to the United States is the absence of strong Latin American development in this period, which has failed to deliver consistent and steady economic growth, employment, and good wages to its population, an issue we discuss in further detail in [Chapter 5](#).

The third feature of immigration in the second wave of globalization is the growing dominance of “illegal migration” to the United States and Europe, a trend discussed in [Chapters 1](#) and [3](#). Some estimates put the combined number of illegal immigrants in the two areas at about 20 million. Feature number four, migration in the post-Bretton Woods period, is associated with the collapse of communism in the late 1980s and early 1990s in the former Soviet Union and Central and Eastern Europe, which led to the liberalization of international emigration from these countries. Because most of these countries experienced sharp contractions in economic activity, declining real wages, and rising unemployment in the initial years of post-socialism, Russians, Poles, Hungarians, Czechs, and others took advantage of the new opportunities to emigrate, creating a new outflow of immigrants to Western Europe, the United States, and Israel (in the case of Russian emigration). Part of this outflow continues today, as differences in living standards between former socialist countries and Western European countries, the United States, Canada, and other wealthy countries are still sizeable. These international movements of people coming from the former Soviet bloc were largely absent in the Bretton Woods era, at least since the late 1950s and early 1960s.<sup>40</sup> Finally, another trend (analyzed in more detail in

<sup>39</sup> OECD (2003).

<sup>40</sup> As mentioned in [Chapter 3](#), the defeat of the Hungarian revolution in 1956 led to a massive outflow of Hungarians. After those spells of emigration, national borders remained largely closed. The building of the Berlin Wall in 1961 was designed to stem the outflow of East Germans to the west.

Chapter 6) is the rise of migration among highly skilled and educated migrants (scientists, engineers, physicians and nurses, entrepreneurs, information technology experts, and so forth) from the developing world and former socialist countries to OECD nations.

#### 4.11 Concluding Remarks about the Historical Analysis of Capital and Labor Mobility

This chapter has analyzed international migration and capital flows over a long-term perspective – the second half of the 19th century to the early 2000s. It is apparent that the international mobility of people and capital has broadly similar dynamics. They expanded in the first wave of globalization and were disrupted in the interwar years with a slow recovery during the Bretton Woods era, and increased again in the post-Bretton Woods, second wave of globalization. The gold standard was more liberal for labor migration and capital flows, and the post-Bretton Woods, neoliberal era is more liberal for capital but less liberal for (regularized) labor migration. This era can be considered a “new age of capital,” wherein the dominance of capital over labor provides a neoliberal flavor to this new wave of globalization. In the second wave of globalization, we have a rise in illegal migration, providing a source of cheap, immediate labor without definite legal status and rights. As discussed in Chapter 2, this phenomenon is creating reserve army of foreign workers that provides low-cost labor in immediate availability. This creates social segmentation between foreigners and nationals and between documented and undocumented migrants.

This chapter has also shown that the balance between nation-based and international-based economic policies has shifted over time. The Bretton Woods period of 1945–71/73 was the most clearly delineated period in which the influence of the international economy on national economic objectives and outcomes was more regulated and restricted. However, this balance did not last forever, and pressures for the economic liberalization of international capital markets in addition to goods markets led to the second wave of globalization starting in the 1970s and 1980s. As usual in history, the international liberalization of commodities, money, and capital outpaced the liberalization of the

flow of people, particularly workers, across national borders. The second wave of globalization has some potentially self-destructive features, such as a tendency for recurrent financial crises and the persistence of global inequality that creates social tensions and generates strong incentives for mass migration to wealthy nations. An open question is how these wealthy countries will manage these growing pressures for immigration and the potential interdependencies between trade and investment regimes in the developing world and the immigration regimes of wealthy nations.

In [Chapter 5](#), we hearken back to our [Chapter 2](#) discussion on the determinants of international migration by focusing on the Latin American experience. In this respect, this chapter and the next tie together why people move and what happens when they do.

## FIVE

### Latin America: Where Volatile Economic Development, Political Crises, Poverty, and Remittance Income Is a Laboratory for Studying the Determinants of International Migration

From the mid-19th century until the early decades of the 20th, Latin America was considered a “land of opportunity,” primarily for the European emigrant population. During that period, countries such as Argentina, Chile, Brazil, Mexico, and Uruguay received significant contingents of immigrants; Argentina, in particular, was the main destination country for about 6 million people coming mostly from Italy and Spain. In addition to people, these countries received capital and direct investments, primarily from England and Germany, the two leading world financial centers until the 1920s. Thus, both labor and capital flowed to Latin American countries from the mid to the end of the 19th and the beginning of the 20th centuries in search of the good employment and investment opportunities offered by the region.<sup>1</sup> The situation did not last forever. In fact, during the final decades of the 20th century, South America on the whole became a continent of *net emigration* – that is, a net “exporter” of people in which the majority of countries tended to have a larger stock of emigrants than of immigrants. However, as of the early 2000s, some countries are still net-immigration economies, such as Costa Rica, Argentina, and Venezuela.<sup>2</sup> This chapter seeks to identify the main forces that drive migration flows to, from, and within the Latin American region, based on several of the determinants discussed in [Chapter 2](#) of this book. The main emigration pressures in the Latin American region are related to the limited ability of the region to ensure steady growth, attractive jobs, good salaries, and opportunities for the population. Even

<sup>1</sup> Solimano and Watts, 2005; Taylor, 1999.

<sup>2</sup> In this case the stock of immigrants is greater than the stock of emigrants.

Argentina, which in the past had absorbed large influxes of immigrants from Europe and elsewhere in the world, has reversed its status as a magnet for European immigrants since the 1960s. Due to the collapse of democracy in the 1960s and 1970s, and the financial crises that hit the country in the 1990s and 2000s, Argentina has long been suffering from the flight of its best and brightest – professionals, intellectuals, scientists, and entrepreneurs. The cost of this exit of qualified human resources on Argentine society is still waiting to be assessed.

According to the World Bank, as of 2005, nearly 26 million people from the Latin American and Caribbean region live outside their national borders (migrants). Of those, 22.3 million live in OECD countries (86 percent), and 3.6 million (14 percent) in other developing countries. South–south migration in Latin America is dominated by primarily by intraregional migration: 3.4 million people live and work in Latin American and Caribbean countries different from their place of birth.<sup>3</sup> Clearly, the bulk of Latin American migration is south–north, but the percentage of south–south migration is far from small.

The Latin American region (including South America, Central America, and the Caribbean region) is an interesting “laboratory” for studying the phenomenon of international migration, given its diversity of national experiences of successful economic development sometimes and disappointment at many others, besides its chronic political instability. In fact, one glaring characteristic of Latin America is its economic volatility, manifest in a high frequency of economic, developmental, and financial crises. That Latin America has become an “exporter of people,” particularly since the 1980s when Latin American emigration to the United States and Spain accelerated, is due to various factors, but primary among them is that the average rate of economic growth in the region in the past quarter century has fallen sharply from its post–World War II average.<sup>4</sup> Specifically, while Latin America registered an annual economic growth rate above 5 percent between 1940 and 1980, the region’s GDP growth rate fell to less than 3 percent annually between 1981 and 2005, in turn affecting the GDP per-capita growth.<sup>5</sup> Along with a decline

<sup>3</sup> Ratha and Shaw, 2007.

<sup>4</sup> Solimano and Watts, 2005; Solimano, 2006.

<sup>5</sup> Maddison, 2003; Solimano, 2006.

in the average growth rate has come an increased frequency of “growth crises” – that is, negative GDP per-capita growth (Solimano, 2006, and [Table 5.7](#) later in this chapter). A dire consequence of the slowdown in average regional growth in the past 25 years (compared to previous decades), with some exceptions such as the booming cycle of 2003–07, is the sustained (or even widening) gaps in developmental levels and standards of living between several Latin American countries and the main destination countries for immigrants (the United States, Spain, Canada, and other OECD countries), reinforcing economic incentives to emigrate to those nations. As emphasized in [Chapter 3](#) of this book, there is a direct connection between developmental gaps among countries and the flow of immigration among them – people will leave poorly developed countries that are more unstable to go to wealthier, more stable economies.

Other pressures for emigration are exerted by poverty, income inequality, and labor-market informality. In Latin America in 2005, poverty encompassed nearly 38 percent of the total population (about 213 million people), and “critical poverty” (indigents) comprised 16.8 percent of the population (about 88 million people).<sup>6</sup> The level and persistence of poverty prompt people to seek better income and employment opportunities abroad, even though the very poor are not usually the majority of those who migrate. The region also continues to suffer from large income inequality and a skewed distribution of income and wealth. A statistical measure of inequality is the so-called Gini index, named after the Italian statistician Corrado Gini, who presented it in his 1912 paper *Variabilità e mutabilità* (“Variability and mutability”), in which he developed a mathematical formula to measure the dispersion of income or wealth. The index goes from 0, a situation of “perfect equality,” to a value of 1, a situation of complete inequality. Several of the most important Latin American economies have a Gini index that exceeds 0.5. As a point of comparison, the average Gini coefficient of OECD countries is around 0.35. Inequality reflects a lack of ascendant social mobility and opportunity open to everybody, thus also pushing emigration.

This chapter focuses primarily on the role of developmental gaps, macroeconomic cycles, and political crises in explaining migration flows

<sup>6</sup> ECLAC, 2005.



from, to, and within the Latin American region, besides examining the historical evolution of migration, its main demographic characteristics, and the impact of remittances sent by immigrants.

### 5.1 The Developmental Gaps between Latin America and Europe and the New World Have Reversed since the 19th Century

At the end of the “first wave of globalization” (around 1913), the *average* per-capita income in the countries of the southern and northern “periphery” of Europe (Italy, Spain, Portugal, Norway, and Sweden) was slightly higher than the *average* of the leading Latin American economies (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela). However, the wealthiest countries in the group – Argentina, Chile, and Uruguay – registered per-capita incomes that exceeded those of Italy, Spain, and Portugal, the primary sources of immigrants to those South American countries (see [Table 5.1](#)). In turn, per-capita income in the wealthiest countries of the “new world” – Australia, Canada, New Zealand, and the United States – was more than double that of the countries of the European periphery in 1913. As we discussed in [Chapters 2 and 4](#), the first wave of globalization was characterized not only by the flow of trade and capital, but also by the massive movement of people between the Old World (Europe) and the New World (North America, South America, Australia, and Oceania). Interestingly, in the mid-20th century, per-capita income gaps continued to be favorable to such countries as Argentina, Chile, Uruguay, and Venezuela in relation to southern European countries and some Scandinavian nations; for example, in 1950, the per-capita income of Venezuela was higher than in Sweden ([Table 5.1](#)), now one of the wealthiest countries in the world. In contrast, Venezuela has remained in the group of middle-income countries, this despite its impressive oil wealth.

The second half of the 20th century witnessed a reversal in the developmental gaps between several of the most advanced Latin American countries and the southern and northern European countries, the development gaps turned against Latin America. This process accelerated in the decades following the 1970s, when per-capita income in Spain, Italy, and the

Table 5.1. *Developmental gaps in historical perspective: GDP per capita for selected countries, 1820–2005 (in constant 1990 Geary-Khamis international dollars)*

	Second Wave of Globalization: Restricted Migration										
	First Wave of Globalization: The Age of Mass Migration										
	1820	1870	1913	1950	1973	1990	1998	2000	2002	2004	2005
<b>Europe</b>											
Italy	1,117	1,499	2,564	3,502	10,634	16,313	17,990	18,740	19,118	19,440	19,475
Spain	1,008	1,207	2,056	2,189	7,661	12,055	14,129	15,269	15,875	16,276	16,559
Portugal	923	975	1,250	2,086	7,063	10,826	13,106	14,022	14,185	13,977	13,809
Norway	1,104	1,432	2,501	5,463	11,246	18,466	23,826	24,364	24,715	25,236	25,662
Sweden	1,198	1,662	3,096	6,739	13,493	17,695	18,787	20,321	20,898	21,799	22,309
<b>Average</b>	<b>1,070</b>	<b>1,355</b>	<b>2,293</b>	<b>3,996</b>	<b>10,019</b>	<b>15,071</b>	<b>17,568</b>	<b>18,543</b>	<b>18,958</b>	<b>19,346</b>	<b>19,563</b>
<b>Latin America</b>											
Argentina	...	1,311	3,797	4,987	7,962	6,436	9,123	8,544	7,185	8,365	9,050
Brazil	646	713	811	1,672	3,882	4,923	5,422	5,556	5,598	5,736	5,788
Chile	...	...	2,653	3,821	5,093	6,402	9,756	9,841	10,101	10,903	11,470
Colombia	...	...	1,236	2,153	3,499	4,840	5,350	5,096	5,097	5,366	5,548
Mexico	759	674	1,732	2,365	4,845	6,119	6,745	7,218	7,039	7,229	7,338
Peru	...	...	1,037	2,263	3,952	2,955	3,675	3,686	3,754	3,971	4,173

(continued)

Table 5.1. (continued)

	First Wave of Globalization: The Age of Mass Migration					Second Wave of Globalization: Restricted Migration					
	1820	1870	1913	1950	1973	1990	1998	2000	2002	2004	2005
Uruguay	...	2,181	3,310	4,659	4,974	6,474	8,317	7,859	6,672	7,518	7,961
Venezuela	...	569	1,104	7,462	10,625	8,313	8,977	8,415	7,614	7,997	8,596
<b>Average</b>	<b>703</b>	<b>1,090</b>	<b>1,960</b>	<b>3,673</b>	<b>5,604</b>	<b>5,808</b>	<b>7,171</b>	<b>7,027</b>	<b>6,633</b>	<b>7,136</b>	<b>7,491</b>
<b>Other OECD countries</b>											
Australia	518	3,273	5,157	7,412	12,878	17,106	20,361	21,540	22,323	23,301	23,660
Canada	904	1,695	4,447	7,291	13,838	18,872	20,579	22,198	22,860	23,532	23,993
New Zealand	400	3,100	5,152	8,456	12,424	13,909	15,233	16,010	16,614	17,429	17,550
United States	1,257	2,445	5,031	9,561	16,689	23,201	26,619	28,129	28,171	29,704	30,449
<b>Average</b>	<b>770</b>	<b>2,628</b>	<b>4,947</b>	<b>8,180</b>	<b>13,957</b>	<b>18,272</b>	<b>20,698</b>	<b>21,969</b>	<b>22,492</b>	<b>23,492</b>	<b>23,913</b>

Sources: Between 1820 and 2001, Maddison (2003). For the period 2002–2005, data were updated from growth rates reported by ECLAC for Latin America and by the World Bank (WDI) for the remaining countries.

Scandinavian countries surpassed the average of Latin America and that of its formerly leading economies. Consequently, economic incentives to emigrate from Europe to Latin America practically disappeared. In turn, however, Spain and Italy became important destination countries for emigrants from Latin America, especially Argentines, Ecuadorians, and Colombians, particularly when their countries suffered economic and political crises.

**a. Argentina in Focus: The Country Has Reversed Its Course from Massive European Immigration to Emigration to Europe**

Argentina was the Latin American country that experienced the greatest waves of immigration from Europe, especially from Italy and Spain, between the end of the 19th century and the beginning of the 20th century. During that period, immigrants to Argentina were attracted by the country's extensive unexplored territories, with opportunities for producing and exporting grains, meat, and other basic food products. Besides favorable economic conditions, Argentina's social and political climate was also friendly to international migration. From 1870 to 1950, approximately 6 million people left Europe for Argentina. The most significant wave of European migration to Argentina occurred between 1870 and 1914, averaging about 57,000 people each year. The greatest annual flows occurred during the 1900–14 sub-period, reaching an average of 103,000 people each year.<sup>7</sup>

After the great migratory wave of 1870–1914, migratory flows declined during the first few years following World War I. In effect, net immigration fell sharply at the beginning of the period between the two world wars (1914–29), to about 40,000 net immigrants each year (less than half the total number of immigrants arriving annually during the period 1900–14). The first few years of this interwar period were particularly negative for the international economy, and Argentina was no exception. World War I had interrupted the process of global integration that had evolved during the first wave of globalization prior to 1914. With the War, the world capital markets also collapsed, and their reconstruction was a slow and erratic process.<sup>8</sup>

<sup>7</sup> Solimano, 2005.

<sup>8</sup> Solimano, 2005; della Paolera and Taylor, 1998.

The 1930s were not a favorable decade for the Argentine economy: GDP growth slowed over preceding periods by an average of 1.5 percent annually from 1930–40. Like other Latin American countries, Argentina launched a domestic-oriented development strategy at the beginning of the 1930s, raising import tariffs on imported intermediate goods and machinery and equipment, while restricting the availability of foreign currency to some consumption goods and “luxury” products as a way to save foreign exchange and boost domestic industries oriented toward import substitution. The economic slowdown sharply reduced the net flow of immigrants to an average of nearly 22,000 per year.<sup>9</sup> Then, with the economic and human devastation brought about by World War II, many Europeans were forced to leave their native countries. Due to the longstanding ties that had developed from the extensive migratory waves that had occurred earlier, Argentina again became one of the natural destinations for immigrants from the Old World. But this new wave was short-lived: Rapid European economic recovery at the end of the 1940s and 1950s and sustained prosperity in the following decades, along with the ongoing decline in Argentina’s economic performance during the same period, gradually closed the income gaps between Argentina and Europe – ultimately reducing the incentives for Europeans to migrate to Argentina (see [Table 5.1](#)). By the late 1950s, European migration to Argentina had practically come to a halt. Coincidentally, immigration to Argentina from such neighboring countries as Paraguay, Bolivia, and Chile had increased, consisting primarily of low-skilled rural and urban workers.<sup>10</sup> In fact, immigrants from neighboring countries were picking up the work in rural areas that was no longer being done by Argentines who had decided to migrate to the cities following industrialization and the expansion of federal and state government.

Beginning in the 1960s, the emigration of professionals, scientists, and intellectuals from Argentina became an ongoing and persistent

<sup>9</sup> Solberg, 1978.

<sup>10</sup> The majority of Paraguayan and Bolivian immigrants went to northern Argentina, while Chilean immigrants headed for southern Argentina and the Patagonian oil fields. Along with this change in the immigrants’ countries of origin, an important phenomenon of internal (domestic) migration from rural areas to cities in Argentina was also observed beginning in the 1930s.

phenomenon, caused as much by Argentina's unstable economic performance as by the political turmoil and periods of authoritarian rule in the country.<sup>11</sup> In effect, Argentina has since become a net "exporter" of workers, professionals, and financial capital, and an "importer" of regional immigrants, primarily from neighboring countries (mainly from Bolivia and Paraguay); in any case, as already mentioned and shown in Table 5.2, the country in the early 2000s is still a *net-immigration* economy in the aggregate.

From a longer time perspective, the reversal of migratory flows from Europe to Argentina reflects the divergent paths of economic growth and standards of living between both regions. As long as prosperity and good opportunities were plenty in Argentina, Europeans from countries that were comparatively less developed, such as Spain and Italy (along with Russia, Poland, Turkey, and other Central and Eastern European countries), emigrated to Argentina. In contrast, when the Argentine economy started to fall into cycles of instability and stagnation, these flows from Europe ceased, and the direction of emigration reversed from Argentina to Europe (primarily to Spain and, to a lesser degree, Italy). At the same time, it is likely that a "blowback" mechanism was in place – that is, the emigration of workers and professionals certainly exacerbated continuing economic decline in Argentina, widening the developmental gaps with Europe. This process of unstable and less dynamic development that leads to the emigration of human capital – in turn tending to reinforce a downward development spiral and aggravating developmental gaps – illustrates the "double causality" between development gaps to migration *and* from migration to development gaps.

#### **b. Emigration from Latin America Is Outpacing Immigration in the Late 20th and Early 21st Centuries**

Emigration from Latin America has heightened since the 1980s, the decade of the debt crisis in specific countries and the frequent macro-economic crises throughout the region. Despite the fact that the 1990s was generally a decade of recovery with the initiation of economic

<sup>11</sup> Solimano, 2005; Maurizio, 2008.

Table 5.2. *Latin America and the Caribbean: Immigrants and emigrants relative to the total population, by country of origin and destination, circa 2000 (selected countries, minimum estimates in thousands of persons and in percentages)*

Country	Total Population	Immigrants		Emigrants	
		Number	Percent of the Total Population	Number	Percent of the Total Population
<b>Regional total <sup>a</sup></b>	<b>523,463</b>	<b>6,001</b>	<b>1.0</b>	<b>21,381</b>	<b>3.8</b>
<b>Latin America</b>	<b>511,681</b>	<b>5,148</b>	<b>1.0</b>	<b>19,549</b>	<b>3.5</b>
Argentina	36,784	1,531	4.2	507	1.4
Bolivia	8,428	95	1.1	346	4.1
Brazil	174,719	683	0.4	730	0.4
Chile	15,398	195	1.3	453	2.9
Colombia	42,321	66	0.2	1,441	3.4
Costa Rica	3,925	296	7.5	86	2.2
Cuba	11,199	82	0.7	973	8.7
Ecuador	12,299	104	0.8	585	4.8
El Salvador	6,276	19	0.3	911	14.5
Guatemala	11,225	49	0.4	532	4.7
Haití	8,357	26	0.3	534	6.4
Honduras	6,485	27	0.4	304	4.7
Mexico	98,881	519	0.5	9,277	9.4
Nicaragua	4,957	20	0.4	477	9.6
Panama	2,948	86	2.9	124	4.2
Paraguay	5,496	171	3.1	368	6.7
Peru	25,939	23	0.1	634	2.4
Dominican Republic	8,396	96	1.1	782	9.3
Uruguay	3,337	46	1.4	278	8.3
Venezuela (BR)	24,311	1,014	4.2	207	0.9
<b>The Caribbean</b>	<b>11,782</b>	<b>853</b>	<b>1.9</b>	<b>1,832</b>	<b>15.5</b>
Netherlands Antilles	215	55	25.6	118	54.9
Bahamas	303	30	9.9	28	9.2
Barbados	267	25	9.4	68	25.5
Belize	240	17	7.1	43	17.9
Dominica	78	4	5.1	8	10.3
Grenada	81	8	9.9	56	69.1
Guadeloupe	428	83	19.4	2	0.5
Guyana	759	2	0.3	311	41.0

Country	Total Population	Immigrants		Emigrants	
		Number	Percent of the Total Population	Number	Percent of the Total Population
French Guyana	164	...	...	1	0.6
Jamaica	2,580	13	0.5	680	26.4
Martinique	386	54	14.0	1	0.3
Puerto Rico	3,816	383	10.0	6	0.2
Saint Lucia	146	8	5.5	22	15.1
Suriname	425	6	1.4	186	43.8
Trinidad & Tobago	1,289	41	3.2	203	15.7
Others <sup>b</sup>	605	124	20.5	99	16.4

<sup>a</sup> Data for Cuba, Haiti, and the Caribbean provided by the United Nations Population Division.

<sup>b</sup> Includes Anguilla, Antigua and Barbuda, Aruba, Bermuda, Cayman Islands, Turks and Caicos, U.K. and U.S. Virgin Islands, Montserrat, Saint Kitts and Nevis, and Saint Vincent and the Grenadines. Estimates of immigrants are minimums, because only a limited number of European and Pacific Island countries (Oceania) are taken into consideration.

Source: ECLAC (2006).

reform, the majority of Latin America consists of countries with a greater flow of emigration than immigration (see Table 5.2). At the regional level, immigrants represent an average of about 1 percent of the total population, while emigrants account for 3.8 percent.<sup>12</sup> In 2000, the country with the greatest emigration stock relative to its population was El Salvador (14.5 percent of its population), followed by Nicaragua (9.6 percent), Mexico (9.4 percent), and the Dominican Republic (9.3 percent). In contrast, the countries with a greater proportion of immigrants than emigrants in 2000 were Costa Rica (a difference of 5.3 percent), Venezuela (a difference of 3.3 percent), and Argentina (a difference of 2.8 percent).

The information in Table 5.2 highlights the large differences in immigration and emigration rates across countries within the Latin American region. At the sub-regional level, the *emigration rate* in the Caribbean is four times greater than the average Latin American

<sup>12</sup> ECLAC, 2006.



emigration rate – 15.5 percent versus 3.5 percent – and countries such as Suriname, Guyana, Barbados, Grenada, Netherlands Antilles, and Jamaica have emigration rates that exceed 25 percent of their total population. Such emigration rates are well above those observed in “high” emigration countries in Central or South America, such as the Dominican Republic, Nicaragua, Mexico, El Salvador, Cuba, and Uruguay (countries whose emigration rates are above 8 percent of their total population). The very high emigration rates observed in several Caribbean countries (some of them small islands) remain a somewhat puzzling phenomenon, probably tied to former colonial rules with migrant-destination countries.

### c. Emigration from Latin America and the Caribbean Is Primarily to One Destination Country – the United States

The number of people born in Latin America and residing in high-income (OECD and non-OECD) countries reached 22.5 million people in 2006 according to the World Bank (Ratha and Shaw, 2007).

As shown in [Figure 5.1](#), about 19 million Latin American migrants were residing in the United States; 1.3 million in Spain; 850,000 in the United Kingdom; 692,700 in Canada; 315,000 in the Netherlands; and 818,000 in other OECD countries for the years selected. The United States is by far the primary extra-regional country of destination for Latin American emigrants, and of course its numbers might be even higher because they do not include undocumented or “illegal” immigrants.<sup>13</sup>

Mexico is the main origin country of Latin American immigrants to the United States. Currently, Mexican immigrants comprise the greatest proportion of all foreigners in the United States. The proportion of Mexican-born people in the United States has skyrocketed in the past 50 years at a remarkable pace that has increased steadily each decade ([Table 5.3](#)). In 1960, 576,000 native-born Mexicans were residing in the United States (5.9 percent of the U.S. foreign-born population). In 1970, there were 759,000 (7.9 percent of the foreign-born population); in 1980, there were 2.2 million (15.6 percent); in 1990, there were 4.3 million (21.7 percent);

<sup>13</sup> Migration flows are not just extra-regional; they also occur between countries in Latin America – for example, Bolivians to Argentina, Peruvians to Chile, Nicaraguans to Costa Rica, and Haitians to the Dominican Republic, among others.

Table 5.3. *Total and Mexican foreign-born populations in the United States, 1960–2006*

Year	Total		Mexican born			
	U. S. Population	Foreign Born	People	Share of All Foreign Born (%)	Share of Total U. S. Population (%)	Rank*
1960	179,323,175	9,738,091	575,902	5.9	0.3	7
1970	203,302,031	9,619,302	759,711	7.9	0.4	4
1980	226,542,199	14,079,906	2,199,221	15.6	1.0	1
1990	248,718,302	19,767,316	4,298,014	21.7	1.7	1
2000	281,424,602	31,107,889	9,177,487	29.5	3.3	1
2006	299,398,485	37,547,315	11,541,404	30.7	3.9	1

\* Rank refers to the position of Mexican-born in relation to other immigrant groups in terms of size of the population residing in the United States in a given census year. For U. S. population: U.S. Census Bureau, Statistical Abstract of the United States: 2006 (page 8); U.S. Census Bureau, 2006 American Community Survey.

Source: Batalova (2008).

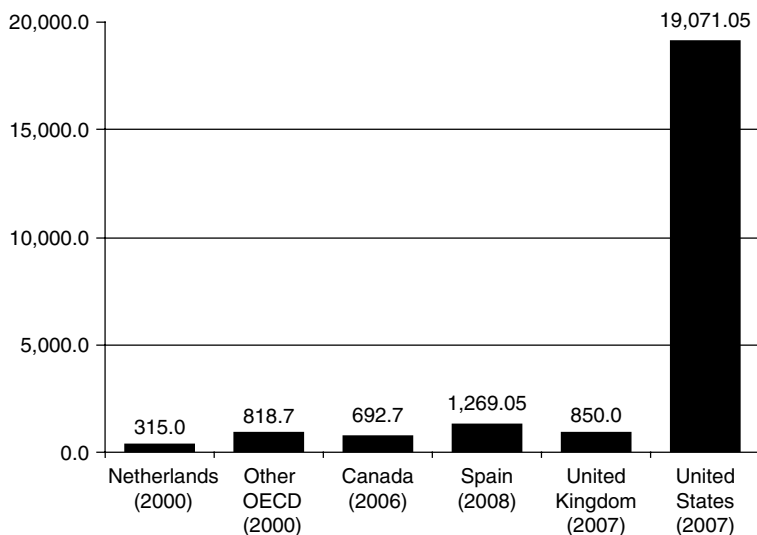


Figure 5.1. People born in Latin America and the Caribbean residing (documented) in selected OECD countries (thousands of people).

Sources: The Netherlands and other OECD countries: OECD (2005); Canada: Statistics Canada (2006); Spain: Observatorio Permanente de la Inmigración (March 31, 2008); United Kingdom: Foreign & Commonwealth Office (2007); and United States: U.S. Bureau of the Census (2000) and U.S. Department of Homeland Security (2007).

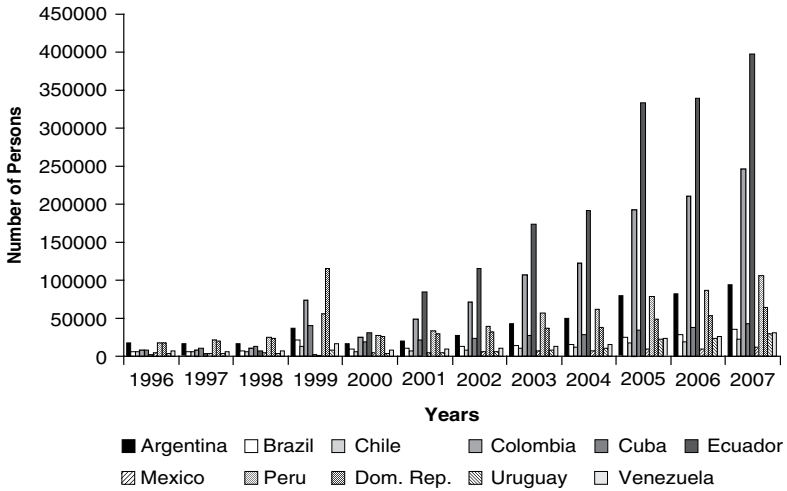


Figure 5.2. Latin American Residents (documented) in Spain 1996–2007.

Source: Statistical report (Informe estadístico) 2004, 2005, 2006, and 2007. Ministerio de Trabajo y Asuntos Sociales de España. Secretaría de Estado de Inmigración y Emigración. \*Data correspond to foreigners with valid residence cards or authorization organized by continent and nationality according to type of residence (general system or communal system)

and in 2000, there were 9.1 million (29.5 percent). In 2006, 11.5 million Mexican-born people were residing in the United States (30.7 percent of the U.S. foreign-born population).

Another country that has started to be a main destination for Latin American migrants is Spain. Since the second half of the 1990s, Spain has been the destination country for a growing number of emigrants from Latin America, particularly those from Ecuador, Colombia, and Argentina (see Figure 5.2), countries that suffered severe domestic economic crises in the late 1990s (Ecuador) or early 2000s (Argentina), along with an intensification of the civil conflict (Colombia) in the late 1990s and early 2000s.<sup>14</sup> After Morocco, the countries with the second and third largest populations of resident foreigners in Spain are Ecuador and Colombia. Between 1996 and 2003, the population of Ecuadorians

<sup>14</sup> A detailed set of country studies, comprising Ecuador, Colombia, and Argentina besides Chile and Dominican Republic, that were written by national experts on these countries appear in an edited volume (Solimano, 2008a).

and Colombians residing in Spain increased rapidly following the economic crises in Ecuador and Argentina, and the intensification of violence in Colombia (see [Box 5.1](#), which also includes other geopolitical crises prevailing in the Latin American and Caribbean regions).

## **5.2 The Socio-demographic Characteristics of Latin American Migration: Women and Educated Persons Are Two Prominent Groups**

The five country studies on migration in Latin America reported in Solimano (2008a) provide useful information on the socio-demographic characteristics of people who migrate to, from, and within Latin America. We can highlight three main characteristics of these five cases of Latin American migration: (a) the predominance of women, (b) the importance of youth to middle-age migration, and (c) the level of education of migrants.

A first characteristic of migration for these countries is the significance of women's migration. Worldwide, emigration by women has become a growing phenomenon in recent decades; according to the statistics of the United Nations in 2005, the emigration of women represents roughly 50 percent of total migration in the world, up from 47 percent in 1960.<sup>15</sup> In the Latin American and Caribbean region, the average of female migration was also 50 percent in 2005 but it was 45 percent in 1960. In Chile, the proportion of female emigrants is only slightly below 50 percent of the total number of emigrants.<sup>16</sup> Colombian women who immigrate to Spain represent 54 percent of the total number of emigrants to that country, while women account for 51 percent of all emigrants to the United States.<sup>17</sup> The case of the Dominican Republic is even more marked – 67 percent of the total number of Dominican emigrants to Spain and 54 percent of emigrants to the United States are women.<sup>18</sup> In Ecuador, the number of female emigrants is slightly lower than in the other countries cited.<sup>19</sup>

<sup>15</sup> Morrison, Schiff, and Sjoblom, 2008.

<sup>16</sup> Solimano and Tokman, 2008.

<sup>17</sup> Cardenas and Mejia, 2008.

<sup>18</sup> Aristy, 2008.

<sup>19</sup> Arteta and Olea, 2008.

### Box 5.1 Turn of the 20th Century Economic Crises and Episodes of Emigration

Ecuador, Colombia, Argentina, and the Dominican Republic all suffered macroeconomic and/or financial crises from the late 1990s to the beginning of the 2000s – each one of which was followed by waves of emigration.

In *Ecuador*, Arteta and Olea (2008) have estimated that between 800,000 and 1 million people have left the country since 1998 in the face of severe economic and financial crises, including a sharp decline in output, deepening unemployment, a freeze on deposits in 1999, and escalating inflation, followed by a political crisis that led to the ouster of constitutional President Jamil Mahuad in January 2000. In a move to stabilize the economy in early 2000, the country adopted the U.S. dollar as the *official* currency and started a process of reconstructing the financial system severely damaged in the crisis of 1999. The economy has since stabilized inflation and strengthened the banking system, but with only moderate economic growth. The primary destination countries for Ecuadorian emigrants have been Spain, Italy, Colombia, and Peru. Interestingly, Ecuador also received immigrants from Colombia and Peru, reportedly lured by the fact that salaries in Ecuador were paid in U.S. dollars.

In *Colombia*, a wave of emigration started in the second half of the 1990s, following the combination of an economic slowdown in 1998–99 and an intensification of the internal conflict. In 2005 it is estimated that around 3 million Colombians were living outside of their home country, with the United States and Spain being the main destination countries of this last wave of emigration (Cardenas and Mejia, 2008).

*The Dominican Republic* is both an origin and a destination country for migrants. About 90 percent of the Dominicans who left their country went to the United States, where large Dominican communities can be found in New York, Florida, and other parts of the country. The Dominicans suffered a financial crisis in 2003, but this did not lead to an output contraction as in the case of Ecuador or Argentina.

Aristy (2008) estimates that as of 2005, approximately 800,000 people were living in the United States. In turn, the Dominican Republic is a net recipient of immigrants from poor Haiti, a border country; estimates are that nearly 500,000 Haitians live in the Dominican Republic. The large flow of emigrants from the Dominican Republic is somewhat puzzling, because, according to official statistics, the country had the second highest GDP per-capita growth rate after Chile since the end of the 1980s.

*Argentina* suffered its last economic and financial crisis in 2001–02, when in late 2001 it abandoned a 10-year-old “convertibility board” that by law fixed the exchange rate between the Argentine peso and the U.S. dollar at a rate of 1 to 1. The attempts to defend the regime led to a cumulative economic contraction of nearly 20 percent from 1998 to 2002, creating massive unemployment, and later on, in late 2001, a banking crisis in which many Argentines lost their bank deposits. This crisis situation led to the outflow of Argentines to Spain, the United States, Italy, and other countries. Since 2003, the economy has recovered rapidly, and Argentines may have returned along with increased immigration from neighboring countries. Precise numbers of the flow of immigrants and emigrants in the full episode of crisis and recovery are still incomplete (Maurizio, 2008).

A second feature of Latin American migration is its relative youth. In destination countries, most of the Latin American immigrants are between 20 and 50 years of age. The median age of Argentine emigrants living in the United States was 43 years, according to U.S. Census data for 2001, while Argentines residing in Spain are younger, between 25 and 35 years old. Recent emigrants from Chile (the number has declined sharply compared with the big wave of emigration in the 1970s) are concentrated in the 30- to 59-year age range, while immigrants to Chile, mainly from neighboring countries, show an increasing predominance of younger people (ages 15 to 29). Colombian emigrants to the United States range between 25 and 54 years of age, with the bulk between the ages of 35

and 44 years. The situation in Ecuador is similar – most emigrants are between 20 and 30 years of age, while 64.2 percent of immigrants are between 20 and 59 years old. The Dominican Republic also follows the same trend: Among all emigrants, the greatest proportion is between ages 25 and 44.

A third feature of Latin American migration in the five countries studied in detail is its level of education. There are also significant differences in the number of years of schooling between emigrants and with non-emigrants, and between immigrants to and natives of destination countries. About 80 percent of Argentine emigrants living in the United States have completed a secondary education, and a similar proportion of Argentine emigrants over the age of 18 in Spain have also completed a secondary education. Among immigrants to Argentina, the level of education depends on the immigrant's country of origin; in fact, immigrants from Bolivia, Paraguay, and Chile have a lower average level of schooling than native Argentines, while immigrants coming from Uruguay and Peru have a higher level of schooling than native Argentines.<sup>20</sup> In Chile, 71 percent of those who emigrate have completed at least a secondary education, and 24 percent have taken technical training, university study, or postgraduate study.<sup>21</sup> In Colombia, 30 percent of the emigrant population has a tertiary education, while average schooling among all emigrants is 12 years – still higher than the average level of education among Colombians who do not emigrate. These figures are similar to those for *immigrants* to Colombia, who register an average of 8.1 years of schooling, slightly higher than the 7.5 years of schooling among native Colombians. In Ecuador, the level of education varies according to the destination chosen by Ecuadorian emigrants: While 80 percent of those living in the United States have at most a secondary education, 65 percent of Ecuadorians in Chile have a university degree. In contrast, the level of education among Ecuadorians who emigrate to Spain, Italy, and Venezuela is low. Finally, the level of education among people leaving

<sup>20</sup> Maurizio, 2008.

<sup>21</sup> The percentage of Chilean emigrants who completed secondary, technical school and undergraduate and graduate university education increased from 47.7 percent in the 1982 population census to 64.8 percent in the 2002 census. In turn, the number immigrants to Chile with 10 or more years of schooling has increased in the past 20 years (see Solimano and Tokman, 2008).

the Dominican Republic is higher than that of Dominicans who do not emigrate. Figures for the 1990s show that average schooling among Dominican emigrants was 9.7 years, while residents 15 years of age or older had an average of only 4.5 years of schooling.<sup>22</sup> These numbers reflect a phenomenon that has become common in most Latin American countries – the departure of people whose level of human capital, expressed by years of schooling, is higher than the average among those who do not emigrate from those countries. This is connected to the “brain drain” phenomenon referred to in the literature, and which is analyzed in the next section.

### 5.3 The Emigration of Elites: The Disproportionate Numbers Beg for Action from the Global Community

The emigration of elites in Latin America encompasses people with special talents and specialized knowledge in science, technology, culture, and business, including scientists, engineers, IT experts, executives, professionals, and artists who move beyond the borders of their countries. An important segment consists of entrepreneurs – people with talent for creating enterprises and mobilizing resources, although not necessarily those with a high level of formal education. For empirical purposes, we want to know the magnitude and direction of “talent” and “elite” migration; we use as an approximation the migration rates of individuals with a tertiary education. [Table 5.4](#) shows the emigration rates of people with a tertiary education (as a percentage of the corresponding workforce) from “the Americas” (North, Central, South, and the Caribbean region) to OECD countries.

The evidence shows very high rates of emigration among people with a tertiary education in Caribbean countries (43 percent), followed by emigration among those from Central America (at 17 percent). The rate of emigration among those with a tertiary education from South America is comparatively low (at 5 percent). In fact, several countries in the Caribbean, such as Guyana, Grenada, Jamaica, St. Vincent, and Haiti, have emigration rates of more than 80 percent among people with a tertiary education ([Table 5.5](#) and also [Chapter 3](#)). But even Venezuela registers

<sup>22</sup> Aristy, 2008.



Table 5.4. *Skilled migration from America to OECD countries\*, 2000*

Region	Participation in OECD Stock (%)		Emigration Rate (% of the Workforce**)		Participation of Skilled Workers (%)	
	Total	Skilled	Total	Skilled	Among Residents	Among Migrants
Americas	26.3	22.6	3.3	3.3	29.6	29.7
North America	2.8	4.6	0.8	0.9	51.3	57.9
The Caribbean	5.1	5.7	15.3	42.8	9.3	38.6
Central America	13.7	6.6	11.9	16.9	11.1	16.6
South America	4.7	5.6	1.6	5.1	12.3	41.2

\* People with 13 or more years of schooling (level of tertiary education).

\*\* Population 25 years or older.

Source: Docquier and Marfouk (2006).

Table 5.5. *Selected Caribbean and Latin American countries: Proportion of the educated labor force emigrating to OECD countries, 2000, Percentage.*

Countries	Highest Rate of Emigration
Guyana	89.0
Grenada	85.1
Jamaica	85.1
St. Vincent and the Grenadines	84.5
Haiti	83.6
Trinidad and Tobago	79.3
St. Kitts and Nevis	78.5
St. Lucia	71.1
Antigua and Barbuda	66.8
Belize	65.5
Dominica	64.2
Barbados	63.5
Venezuela, BR	60.1
Panama	57.7
Suriname	47.9

Source: Docquier and Marfouk (2006).

Table 5.6. *H1-B visas granted by the United States to immigrants skilled in information technology and computer science (fiscal year 2002)*

Region of Origin	H1-B Visas Granted		Visas Related to Information Technology and Computer Science Areas		
	Total	Percentage	Total	Percentage of All H1-B Visas	Percentage in the Information Technology Sector
South America	12,732	6.4	1,500	11.8	2.0
Asia	127,625	64.6	62,121	48.7	82.7
Africa	5,994	3.0	1,308	21.8	1.7
Europe	30,840	15.6	5,901	19.1	7.9
Others	20,346	10.3	4,284	21.1	5.7
All countries	197,537	100.0	75,114	...	100.0

Source: Barrere, Luchilo, and Raffo (2004).

an emigration rate of 60 percent among people with a tertiary education. These are real cases of *brain drain* that require greater attention by the international development community. In turn, the labor force participation of people with a tertiary education (“skilled” workers) in relation to residents and the migrant stock is higher in South America and North America, suggesting that emigrants from these countries have a (relatively) higher level of education than the native-born in the countries of origin and immigrants in the country of destination, which also confirms the results found in the five migration country studies mentioned earlier.

Another interesting fact to highlight is the low proportion of South American professionals working in the information technology and computer science field in the North American market. In fact, South Americans obtained only about 6.5 percent of the total number of H1-B visas granted by the United States (in the year 2002) to professionals and specialized personnel from other countries in the world (Table 5.6; also discussed in more depth in Chapter 6). In contrast, Asia received 65 percent of these H1-B visas. This difference is even more pronounced for visas granted to professionals and experts in the information technology and computer science fields: South Americans obtained only a scant 2 percent of these visas, compared with 83 percent among professionals from Asia, showing that South America is still a marginal supplier of qualified human resources in the IT sector in the United States, a major

market for international talent in this field (this may reflect a supply problem a lack of qualified professionals in this area who are internationally competitive – or simply a demand problem, where U.S. markets are less accustomed to hiring South American IT experts).

#### 5.4 The Determinants of Migration to, from, and within Latin America Mirror Those throughout the Developing World

In [Chapter 2](#), we examined the different determinants of international migration; here, they help explain the flow of extra-regional and intraregional migration in Latin America. These factors can be listed again:

- *Developmental and wage gaps* between a migrant's country of origin and country of destination (estimated by the ratio of GDP per capita and wage ratios between countries in comparable purchasing-power dollars).
- *Macroeconomic factors*, such as economic cycles and growth and financial crises.
- Factors related to *imbalances in the labor market*, such as unemployment, underemployment, and informal work in the countries of origin and destination.
- *Political variables*, such as political crises, internal conflicts, and political regimes. These factors have been very relevant in some countries and periods in Latin America, a region with a long history of political instability and cycles of authoritarianism that have induced waves of emigration.
- *Other determinants*, such as the costs of emigrating, social networks and diasporas; cultural differences between countries; the geographic distance between origin and destination countries; and migration policies, primarily in immigrants' destination countries.
- For "intraregional" or "south-south migration," *geographical proximity* and *cultural and language similarities* also play an important role in explaining migration flows.

Here, we focus on the role of developmental gaps, economic crises, and political conditions as factors that have triggered most emigration waves in the Latin American region.

Table 5.7. *GDP per capita in purchasing power parity for selected Latin American countries and the primary destination countries for Latin American emigrants, 1950–2004 (constant 1990 Geary–Khamis dollars)*

Year / Country	1950	1960	1970	1980	1990	2000	2004
Argentina	4,987	5,559	7,302	8,206	6,436	8,544	8,202
Chile	3,821	4,320	5,293	5,738	6,402	9,841	10,967
Colombia	2,153	2,497	3,094	4,265	4,840	5,096	5,481
Ecuador	1,863	2,289	2,845	4,129	3,903	3,101	4,436
Dominican Republic	1,027	1,302	1,561	2,372	2,474	3,663	n.d
Canada	7,291	8,753	12,050	16,176	18,872	22,198	23,696
Spain	2,189	3,072	6,319	9,203	12,055	15,269	17,521
United States	9,561	11,328	15,030	18,577	23,201	28,129	29,989

Source: Maddison (2003), updated with data from <http://www.ggdc.net>.

#### a. Developmental Gaps Are Persistent in Latin America

In general, people prefer to work and live in countries that offer higher incomes, better jobs, and a higher standard of living than the country of origin or birth of the migrant. Developmental gaps reflect important differences in economic possibilities and opportunities among countries. In 2004, Latin America and the Caribbean had an average per-capita income of approximately US\$6,500, measured in purchasing power parity (PPP), while the United States, the primary destination of emigrants from the region, had a per capita income of US\$37,500, which is six times higher than that of the Latin American region.<sup>23</sup> In turn, Spain has a per-capita income level of US\$23,700, nearly three and one-half times the average per-capita income in Latin America and the Caribbean (see Table 5.7). In the case of Spain, incentives to migrate to that country are further reinforced by cultural similarities and the fact that the spoken language (Spanish) is the same as in the majority of Latin American countries. Albeit per-capita income differentials tend to overestimate actual wage and income differentials for migrants (see Chapter 2), they still provide an indication of the unfavorable income gaps for Latin America compared to more developed countries.

<sup>23</sup> These comparisons are made based on data from Maddison (2003).

Significant differences in per-capita income levels among Latin America countries also drive *intraregional* migration. In 2005, for example, per-capita income in Argentina was three times higher than in Ecuador and almost double that in the Dominican Republic (Table 5.7). These differences generate incentives for intraregional migration, although it is more likely that the income differentials operate more forcefully between neighboring and/or geographically proximate countries.

Table 5.7 shows the persistent per-capita income gaps among five main Latin American countries (Argentina, Chile, Colombia, Ecuador, and the Dominican Republic), and the United States and Canada. The GDP per-capita ratios of the five Latin American and Caribbean countries to the United States, Canada, and Spain (a measure of developmental gaps) are shown in Figure 5.3. This gap began to shrink for Chile in the second half of the 1980s, due to their higher economic growth rate. In Argentina, the GDP per-capita ratio declined sharply with respect to the United States by around 20 percentage points between 1975 and 1990, a decline that started to reverse in the 1990s (until 1998), to fall again and then recover since 2003. For the two remaining countries (Ecuador and Colombia), the gap is persistent and unstable, and, in some cases, it has widened over time. As highlighted in the previous section, per-capita income gaps had once favored the most prosperous Latin American economies. For example, per-capita income in Spain in 1950 was *lower* than Chile's, Argentina's, and those of some other Latin American countries. This gap still favored Argentina in 1970, but by then Chile had dropped below Spain. In turn, during the 1970s, Spain's per-capita income began to surpass Argentina's, as the economic growth paths of both countries followed divergent trends. In 2004, per-capita income in Argentina was *half* that of Spain, although that gap has begun to narrow given the rapid growth (or recovery) of Argentina since 2003.

During the last half-century, per-capita income among Latin American countries varied in a similar fashion. If Chile, Colombia, and the Dominican Republic are compared with Argentina, we observe a narrowing of the income gap between the first three countries and Argentina between 1950 and 2004. In contrast, the gap between Ecuador and Argentina widened during the same period, due primarily to the comparatively poor economic performance of Ecuador since the 1980s.

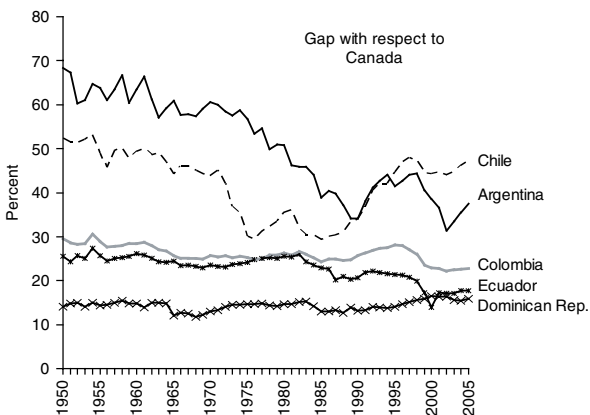
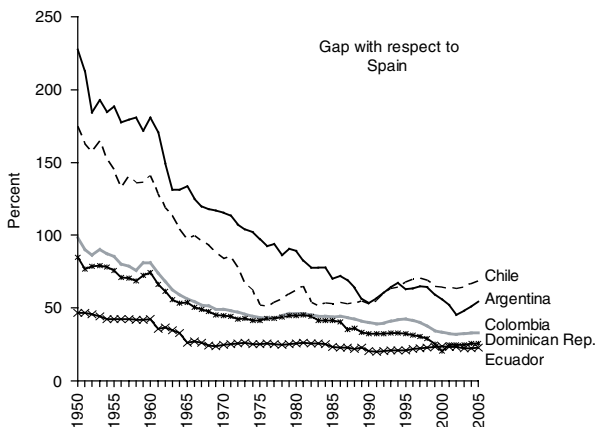
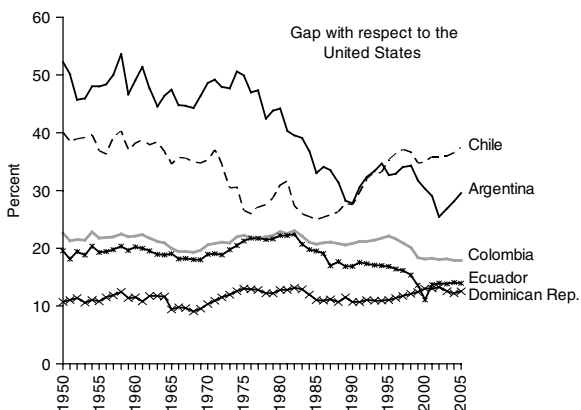


Figure 5.3. GDP per capita for selected Latin American countries as a percentage of GDP per capita of the primary destination countries for Latin American emigrants, 1950–2005.

Source: Author's own elaboration with data from World Development Indicators (WDI), World Bank.

### b. Growth Crises and Financial Crises Are Endemic in Latin America

Historically, and especially in the past 25 years, the Latin America region has been beset by economic cycles, highly volatile growth rates, and recurrent economic and financial crises. In the 1990s most of the region started market-based reform policies of the kind tried by Chile (under the iron fist of General Pinochet) in the mid-1970s. The success of these reforms on the growth front was *not* spectacular. In Latin America, and in several of the countries studied in this volume, “growth crises” – defined as any year in which the GDP per-capita growth rate is negative – are a frequent phenomenon (Table 5.8). Two aspects of this table, which records the frequency of growth crises in 12 Latin American economies and a reference group outside the region, are worth highlighting: (1) Growth crises in Latin America in the neoliberal era occurred with greater frequency after 1980 than before 1980, and (2) the reference group of countries outside the region – including Korea, Spain, the Philippines, Ireland, Thailand, and Turkey – have had less frequent growth crises than the 12 Latin American economies. The Latin American countries, in fact, have had substantially more growth crises than the reference group, on average. From 1961–2005, the percentage of nonconsecutive years of negative per-capita growth is 28.1 percent among the group of Latin American economies, compared with 10.7 percent among the reference group. At the individual country level, Venezuela and Argentina are the two countries with the highest frequency of growth crises in the period 1981–2005.

This analysis refers only to “growth crises” – again, defined as negative annual GDP per-capita growth. However, an economic crisis may also be accompanied by devaluations of the domestic currency, losses in the real value of deposits in the banking sector, a moratorium on debt payment, and severe fiscal stress or fiscal bankruptcy. The majority of economic crises involve sharp declines in standards of living, output contraction, unemployment, reductions in real wages, and general economic insecurity. In crisis conditions, people with different skills, experience, and levels of education have a greater incentive to abandon their countries of origin, thus increasing the rates of emigration. As an example, the banking crises in Argentina (2001–02) and Ecuador (1999)

Table 5.8. "Growth crises" in selected Latin American countries and reference countries, 1961–2005

Country	Number of Years with Negative GDP Per-Capita Growth Rates				Percent of Crises, 1961–2005
	1961–1980	1981–2005	1990–2005	1961–2005	
Argentina	7	11	6	18	40.0
Bolivia	5	10	3	15	33.3
Brazil	1	11	7	12	26.7
Chile	4	3	1	7	15.6
Colombia	3	5	3	8	17.8
Costa Rica	2	8	4	10	22.2
Ecuador	4	8	4	12	26.7
Mexico	0	8	3	8	17.8
Peru	4	9	5	13	28.9
Dominican Rep.	4	6	3	10	22.2
Uruguay	6	9	6	15	33.3
Venezuela, B.R.	10	14	7	24	53.3
<i>Average</i>	<i>4.2</i>	<i>8.5</i>	<i>4.3</i>	<i>12.7</i>	<i>28.1</i>
Korea	1	2	1	3	6.7
Spain	2	2	1	4	8.9
Philippines	0	8	5	8	17.8
Ireland	1	2	0	3	6.7
Thailand	0	2	2	2	4.4
Turkey*	2	7	4	9	20.0
<i>Average</i>	<i>1.0</i>	<i>3.8</i>	<i>2.2</i>	<i>4.8</i>	<i>10.7</i>

\* Data beginning in 1969.

Source: "Growth crises in Latin American and reference Group" from Andrés Solimano and Raimundo Soto (2006), "Economic Growth in Latin America in the Twentieth Century: Evidence and Interpretation," in Andrés Solimano, editor, *Vanishing Growth in Latin America: The Late Twentieth Century Experience*, Chapter 2, Cheltenham, UK and Northampton, MA: Edward Elgar, p. 21.

were probably a major determinant for emigration, when many people lost their savings deposits in the banks in addition to their jobs.

### c. Political Crises and Internal Violence Are also Serious in Latin America

As stressed in [Chapter 2](#), people do not abandon their countries of origin and leave behind their family and friends for economic reasons only. Political instability, civil unrest, armed conflict, and the collapse of democracy are all reasons for voluntary emigration and sometimes



forced emigration and exile. Latin America offers many examples of the imposition of authoritarian regimes that led to the massive exodus of people, including professionals, scientists, and intellectuals. In [Chapter 4](#), we illustrated several cases of “political crises” around the world that led to emigration waves. Politically compelled emigration was the case in several Latin American, Southern Cone countries near the end of the 1960s and in the 1970s, generally associated with *coups d'états* and military repression. During those years, military regimes in Brazil, Argentina, Uruguay, and Chile sought to shrink and control the opposition in universities, labor unions, and political parties, unleashing repression that induced dissidents to emigrate. These experiences suggest a direct correlation between the emigration of scientists and intellectuals in particular (and thus a brain drain) and the existence of authoritarian regimes that suppressed civil liberties and restricted academic freedoms, thus setting those countries back economically.<sup>24</sup> Of course, workers and labor-union leaders were also affected by the military regimes, although these individuals are generally less internationally mobile than individuals with a tertiary education. An attempt to measure the incidence of military and semi-democratic regimes in Latin America is shown in [Table 5.9](#). The greatest percentage of semi-democratic and nondemocratic regimes between the 1960s and the 1990s was concentrated in Argentina, Chile, and Ecuador in the period 1960–2006 ([Table 5.9](#)). Moreover, it is estimated that the breakdown in constitutional government was most severe in Argentina and Chile, when civil rights and constitutional safeguards for the population were suspended, increasing the vulnerability of individuals to abuses of power by the State, thus prompting greater flows of emigration to other countries.<sup>25</sup>

<sup>24</sup> The restoration of democracy in Latin America in the 1980s and 1990s brought the return of some of the scientists and intellectuals who had emigrated during the authoritarian period, although this flow probably would have been greater had economic conditions in the universities and research centers – salaries and available resources for conducting research – been better (Pellegrino and Martinez, 2001; Hansen et al., 2002). The nature of political instability and crises within the democratic system, such as the resignation of ministers or even presidents, differs from the interruption of a *political regime* and the collapse of democracy, such as occurred in several cases in Latin America in past decades.

<sup>25</sup> The country studies in Solimano (2008a) provide details on the destination countries of emigrants from these three countries.

Table 5.9. *Evolution of political regimes in selected Latin American countries,\* 1960–2006*

Country	Decade	Constitutional Presidents in the Decade	De Facto Presidents in the decade	Percent of Semi & Non-democratic Regimes in the Decade**
Argentina	1960–1969	3	1	35.0
	1970–1979	4	4	32.5
	1980–1989	2	4	34.9
	1990–1999	3	0	0.0
	2000–2006	4	0	0.0
Chile	1960–1969	2	0	0.0
	1970–1979	1	1	65.0
	1980–1989	0	1	100.0
	1990–1999	2	0	0.0
	2000–2006	2	0	0.0
Colombia	1960–1969	3	0	0.0
	1970–1979	4	0	0.0
	1980–1989	3	0	0.0
	1990–1999	4	0	0.0
	2000–2006	2	0	0.0
Ecuador	1960–1969	5	2	42.5
	1970–1979	2	2	65.0
	1980–1989	4	0	0.0
	1990–1999	5	0	0.0
	2000–2006	4	0	0.0
Dominican Republic	1960–1969	9	5	21.8
	1970–1979	2	0	0.0
	1980–1989	4	0	0.0
	1990–1999	2	0	0.0
	2000–2006	3	0	0.0

\* Counts the number of presidents holding office in each decade.

\*\* Under “democracy,” authorities are elected by universal vote, and civil liberties and political rights are respected. In a “non-democratic” regime, political authorities take power by extra-constitutional means. In “semi-democratic” regimes, the normal functioning of democracy is interrupted; these can be “self-coups” and entail, for example, the dissolution of Congress and restrictions on the freedom of the press and civil liberties.

Source: Prepared by the author.

The stories of the period preceding the military regimes differ among the three countries. Argentina had frequent cycles of democratic, semi-democratic, and authoritarian regimes since the 1930s, and the last military regime of 1976 to 1983 (one of the most repressive in recent history) followed an increasingly unstable and socially conflictive situation associated with the last Peronist government of Estela Martínez, widow of General Peron. In Chile, the military regime of General Augusto Pinochet lasted very long: from September of 1973 to March of 1990. This regime ousted President Salvador Allende and put an abrupt end to the “Chilean way to socialism” of the period 1970–73. Both the Argentine and Chilean military juntas were highly repressive, anti-communist regimes. In contrast, the national-popular military regimes of Ecuador and Peru of the late 1960s and 1970s were far less repressive than the Argentine and Chilean right-wing regimes and much less anti-communist in their rhetoric.

### 5.5 Remittances in Latin America: The Money Emigrants Send Back Home Is a Prominent Source of Financing for the Domestic Economies of Origin Countries

The remittances sent by emigrants to their countries of origin (both monetary and in goods) are the financial counterpart of the physical movement of people (emigration). [Chapter 3](#) discussed in greater depth the motivations for sending remittances. We can distinguish among four motivations that immigrants have for sending remittances to their countries of origin (Solimano, 2004b):

- *Altruism* – the person with the best chance of making a good living elsewhere wants to help his or her family.
- *Self-interest* – a person simply wants to better his or her own life by attempting to diversify the use of income earned abroad.
- *Repayment* – a person wants to return previous investments in his or her human capital that was previously financed by the migrant’s family in the country of origin.
- *Diversification* – a person wants to add to his or her family’s income sources, expanding the family’s financial portfolio.

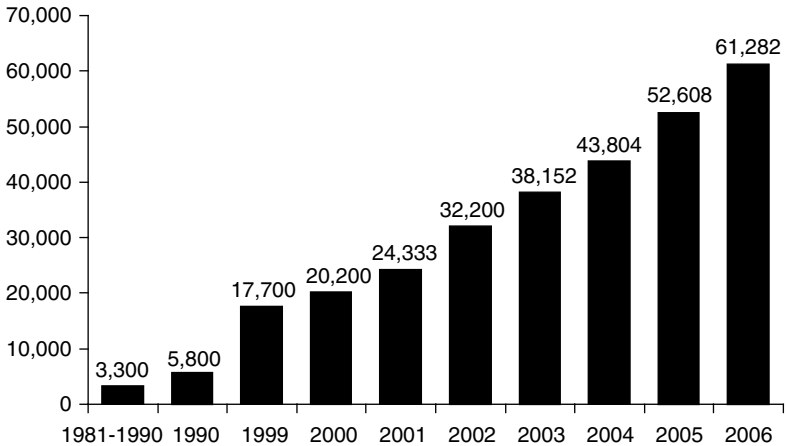


Figure 5.4. Remittances to Latin America and the Caribbean, 1981–2006 (millions of US\$).

Source: 1981–2000: Florida International University (FIU) (2006), Remittance Program and IADB. 2001–2006: author's own elaboration with data from Orozco (2004) and Multilateral Investment Fund (MIF) (2008).

As we also mentioned in [Chapter 3](#), monetary remittances to Latin America and the Caribbean have increased significantly since the end of the 1990s (see [Figure 5.4](#)) and exceed official development assistance received by the Latin American countries. These remittances are ultimately an important source of financing for the economic and social development of the region. In Latin America, the leading remittance-recipient country is Mexico (US\$23 billion in 2006), followed by Brazil (US\$7.3 billion) and Colombia (US\$4.2 billion) ([Table 5.10](#)). It is important to point out that the actual amounts of the remittances may be higher than the amounts registered in official statistics, since money and goods sent as remittances are often transferred or transacted through informal, unregistered channels (for example, personally carried by family or friends).

The economic importance of remittance flows in several countries of the region (particularly in Central America and the Caribbean) is significant, although its comparative weight can be judged according to whether the remittances are calculated as a proportion of GDP or of exports, or in per-capita income amounts. In three countries, remittances represent

Table 5.10. *Remittances to selected Latin American and Caribbean countries, 2001–2006 (millions of US\$)*

	2001	2002	2003	2004	2005	2006
Argentina	100	184	225	270	780	850
Belize	42	38	73	77	81	93
Bolivia	103	104	340	422	860	1,030
Brazil	2,600	4,600	5,200	5,624	6,411	7,373
Colombia	1,756	2,431	3,067	3,857	4,126	4,200
Costa Rica	80	135	306	320	362	520
Cuba	930	1,265	1,296	...	...	...
Dominican Republic	1,807	2,112	2,217	2,438	2,682	2,900
Ecuador	1,430	1,575	1,657	1,740	2,005	2,900
El Salvador	1,911	2,206	2,316	2,548	2,830	3,316
Guatemala	584	1,690	2,106	2,681	2,993	3,610
Guyana	90	119	137	143	270	270
Haiti	810	932	978	1,026	1,077	1,650
Honduras	460	770	862	1,134	1,763	2,359
Jamaica	968	1,229	1,426	1,497	1,651	1,770
Mexico	8,895	10,502	13,266	16,613	20,034	23,053
Nicaragua	660	759	788	810	850	950
Panama	...	...	220	231	254	292
Paraguay	...	...	...	506	550	650
Peru	930	1,265	1,295	1,360	2,495	2,869
Suriname	...	...	...	50	55	102
Trinidad and Tobago	41	59	88	93	97	110
Uruguay	...	...	42	105	110	115
Venezuela, B.R.	136	225	247	259	272	300
Totals	24,333	32,200	38,152	43,804	52,608	61,282

Source: The author, based on data from Orozco (2004) and Multilateral Investment Fund (MIF) (2008).

more than 20 percent of GDP (Table 5.11) – Haiti (33 percent), Nicaragua (29 percent), and Jamaica (23 percent). In four countries, (El Salvador, Honduras, Guyana and Dominican Republic) remittances represent between 10 and 20 percent of their GDP. In South America, Ecuador is the country in which remittances represent the highest percentage of GDP (at 7 percent). In contrast, in the countries that in 2006 received the largest absolute amounts of remittances, (Table 5.10) they comprised a lower comparative proportion of their respective GDPs – Mexico (at 3 percent), Colombia (at 2 percent), and Brazil (at 1 percent), see Table 5.11.

Table 5.11. *Remittances to Latin America and the Caribbean, 2002*

Country	As % of GDP	As % of Exports
Haiti	33	333
Nicaragua	29	127
Jamaica	23	117
El Salvador	18	71
Honduras	16	61
Guyana	16	24
Dominican Republic	11	43
Guatemala	9	76
Ecuador	7	31
Mexico	3	6
Colombia	2	20
Peru	2	15
Brazil	1	8
Bolivia	1	8
Costa Rica	1	4
Venezuela, B.R.	0	1
Cuba	...	83

Source: Orozco (2004).

When remittances are measured in per-capita terms, the countries that are the largest recipients of remittances are Panama (US\$440), El Salvador (US\$361), and the Dominican Republic (US\$257); the smallest recipients are Argentina (US\$6), Venezuela (US\$10), and Brazil (US\$30) (Orozco, 2004). It is estimated that immigrants residing in the United States send annually an average of about US\$3,000 per capita, to Latin America, which represents approximately 10 percent of the annual income of these immigrants in that destination country.<sup>26</sup>

#### a. Remittances Affect Economic Development in Latin America in Diverse Ways

As we indicated earlier, remittances compensate, in part, for the costs of emigration and add several benefits, one of which is that an emigrant's

<sup>26</sup> In effect, it is estimated that 70 percent of Latin American immigrants in the United States earn less than US\$35,000 a year (Orozco, 2004, citing the U.S. Bureau of the Census).

family receives income in addition to that generated in their home country. At the macro level, origin countries, and ultimately the recipients of remittances, benefit from the flow of foreign currency and from savings that can be mobilized for national development. If the average *monthly* amount sent as remittances from the United States by a Latino immigrant fluctuates between US\$200 and US\$300,<sup>27</sup> and we consider that in several Latin American countries the minimum wage is about US\$250–300, then remittances are bound to be an important additional source of income for low to mid-income families receiving them.

An empirical study of Caribbean countries – a region with a growing proportion of remittances in relation to their GDP, rising from 3 percent in 1990 to 13 percent in 2002<sup>28</sup> – indicates that a 1 percent increase in remittances increases private investment (as a proportion of GDP) by 0.6 percent.<sup>29</sup> The type of investment financed with remittances is generally medium or small in size, and includes investment in housing and land, small business, and agriculture. So-called “collective remittances” – those sent by immigrant associations in advanced countries – are generally used to finance urban and social infrastructure, such as neighborhood improvement, and the construction and equipping of schools and hospitals. In the United States, remittances from communities of Salvadoran immigrants (which send an average of about US\$10,000 annually to their country of origin) and from associations of Mexican immigrants (which send up to US\$25,000 annually) stand out. In the State of Zacatecas, Mexico, the local government puts up matching funds as a way to increase the multiplier effect of the remittances sent. It is estimated that about 400 urban improvement projects and micro-enterprises were funded with financing schedules from remittances over an eight-year period.<sup>30</sup>

As discussed in [Chapter 3](#), consensus is lacking about the effect of remittances on the economic growth of recipient countries, with some

<sup>27</sup> See Solimano, 2004b; Orozco, 2004.

<sup>28</sup> In the Caribbean, in the same period, direct foreign investment fell from 11 to 7 percent of GDP, and official development aid from 4 to 1 percent. It is also estimated that about 12 percent of the Caribbean workforce has emigrated to OECD countries.

<sup>29</sup> Mishra, 2005.

<sup>30</sup> Ellerman, 2003.

empirical studies finding a positive effect of remittances on growth while others finding a negative effect.

### b. Remittances Are Used for Current Spending, Durable Goods Purchases, and Education

Studies commissioned by the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB) for five Latin American countries (Guatemala, Honduras, El Salvador, Mexico, and Ecuador) analyzed the use of remittances by recipient families for consumer purchases, savings, and investment.<sup>31</sup> About 72 percent of remittances, on average, are used to pay for food, public services, rent, or mortgage payments. The “savings” category of these surveys/studies represents an average of 7 percent of total remittance spending; education represents 6 percent, and acquisition of housing 1.8 percent (see [Table 5.12](#)). These are *average* propensities to spend and save the income from remittances, which are distinct from *marginal* propensities (the change in consumption or savings relative to the change in income) that, according to the World Bank (2006), are even higher. The positive effect of remittances on the well-being of the recipient families is evident, since they support present and future consumption. It has been estimated that poor families in Latin American countries who receive remittance income are able to avoid taking their children out of school, which is tantamount to increasing investment in human capital.<sup>32</sup> This is certainly a positive effect. Remittances are also a source of additional income for the acquisition of durable goods and housing. The effects of remittances on the purchase of consumer goods and services are important but not entirely dominant.

A World Bank study based on a national survey of family budgets for Guatemala<sup>33</sup> distinguishes among families who receive international

<sup>31</sup> This issue is developed analytically and empirically in Orozco (2004) and in Solimano (2003, 2004b).

<sup>32</sup> See Acosta, Fajnzylber, and Lopez (2007). At the same time, if immigrants in destination countries take jobs that require relatively low skills, it will reduce the return on investment in education.

<sup>33</sup> Adams, 2005.



Table 5.12. *Use of income from remittances in five Latin American countries (in percentages)*

Type of Spending	Guatemala	Honduras	El Salvador	Mexico	Ecuador	Average
Current spending (mortgage, rent, food, etc.)	68	77	84	70	60	72.0
Savings	11	4	4	7	8	6.8
Business	10	4	4	1	8	5.4
Investment						
Education	7	10	4	6	2	5.8
Other items	3	3	2	3	18	5.8
Home and property ownership	1	2	1	1	4	1.8
Does not know/ no response	0	0	2	11	1	2.8
Total	100	100	100	100	100	100

Source: Orozco (2004).

remittances, those who receive domestic remittances, and those who receive none. This study investigates whether the marginal propensity to spend or save is the same for different sources of income, whether or not they are remittances. The important finding of Adams (2005) is that, at the margin, families who receive remittances (domestic or foreign) generally spend less on food and more on housing and education than families who do not receive remittances. The study also shows that families who receive foreign remittances (approximately 8 percent of the sample) have a higher educational level, have fewer children, and tend to live in urban areas than families who do not receive foreign remittances. These findings persist after other determinants of the spending and saving patterns of the families are controlled for, such as the per-capita income level of the families.

### c. Remittances Seem to Reduce Poverty, but Evidence Is Mixed on the Extent to which They Do So

The relationship between poverty and remittances is bi-directional. On the one hand, remittances are an additional source of income for

families in the countries of origin, which can help these families move out of poverty if they spend the money on productive investments. On the other hand, remittances are *not* an exogenous variable (a variable determined outside the system). In fact, the level of per-capita income in the destination country and the level of poverty in the origin country are variables that explain the level of international remittances. A World Bank cross-sectional study of a sample of 74 middle-income developing countries that includes a set of Latin American countries examines the causality between remittances and poverty.<sup>34</sup> The study shows that both international migration (measured as the proportion of a country's population living abroad) and the level of international remittances (as a proportion of GDP) have a statistically significant effect on poverty reduction. On average, a 10-percent increase in the proportion of remittances of GDP leads to a 3.5-percent *reduction* in the proportion of people living below the poverty line. However, this number may be on the high side to the extent that apparently the methodology used does not consider the fact that often the emigrant also contributed with income before migrating. The study also found that a 10-percent increase in the proportion of emigrants in the population of an origin country reduces poverty by 1.9 percent. However, another finding of the study is that countries with higher levels of poverty *do not* send more emigrants abroad – a result that can be explained by the costs of emigration and, as indicated previously, the fact that the poorest people simply do not emigrate. In fact, in the Adams and Page (2005) sample, the immigrants appear to come from groups whose incomes are above the poverty line.

Evidence for Latin America, however, shows that, although remittances have helped recipient households improve their quality of life, they have not played an important role in reducing poverty and indigence (or critical poverty).<sup>35</sup> ECLAC (2005) data show that the impact of remittances on poverty in the total population has not been that large. In particular, based on data from household surveys in

<sup>34</sup> Adams and Page, 2005.

<sup>35</sup> Critical poverty is defined in reference to a poverty line computed as income necessary to finance one "basic consumption" basket.

11 countries in the region between 2001 and 2002, the study found that the impact of remittances on family incomes helped reduce average poverty rates only by 1.4 percentage points, and the indigence rates only by 1.5 percentage points.

An econometric study of the effects of migrant's remittances on poverty and human capital using household surveys for 11 Latin American countries<sup>36</sup> is Acosta, Fajnzylber, and Lopez (2007). The study shows various interesting findings. First, there is a considerable variability in the share of households receiving remittances. The shares vary from 25 percent in Haiti; 10–25 percent in Dominican Republic, El Salvador, Nicaragua, and Honduras; 5–10 percent in Guatemala and Mexico; and 3–5 percent in Bolivia, Ecuador, and Paraguay. Second, the income level of households receiving remittances varies considerably across countries. For example, the share of remittance recipients is predominantly poor in Mexico and Paraguay (61 percent and 42 percent, respectively, of the recipients are in the first income quintiles). In contrast, in Peru only 6 percent of the recipients are in the lowest quintile, whereas 40 percent belong to the highest quintile. Third, the study shows that except in the case of Mexico, the prevalence of poverty among households with migrants is smaller than in the general population in the other countries of the sample, and that the reductions in poverty associated with remittances are much smaller than those arrived at in other studies.<sup>37</sup> Regarding the effects of remittances on human capital, the study finds that access to remittances leads to a higher level of educational attainment in a statistically significant way in 6 of the 11 countries studied, the exceptions being Mexico, Paraguay, Peru, Jamaica, and the Dominican Republic. The results, in turn, vary by gender and across rural and non-rural areas. Finally, the study finds that remittances tend to improve health conditions of children in low-income households in Nicaragua and Guatemala.

<sup>36</sup> The countries are Bolivia, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, and Dominican Republic.

<sup>37</sup> For instance in Adams and Page, 2005.

## 5.6 Concluding Remarks about the Latin American Experience

In the last decades of the 20th century, Latin America and the Caribbean as a region became a *net exporter* of people to the rest of the world. This emigration flow is associated largely with the persistence, over decades, of the significant developmental gaps (in some countries, a widening) between the Latin American and Caribbean regions and wealthier countries, particular in the OECD, as well as to chronic poverty, inequality, and labor market informality in Latin America. In spite of the expansionary growth cycle of 2003–07, the *average rate of economic growth* in Latin America in the post-1980s period *declined* compared to the 1950–80 period, and the *frequency of growth crises* and financial crises *increased* in several Latin American countries. The first factor has delayed a narrowing of developmental gaps, an important factor behind the pressures to emigrate. In addition, economic volatility, measured both as volatile growth rates and as frequent economic and financial crises, have affected the Latin American region in the past quarter century. This chapter has also emphasized that political factors, such as the collapse of the democratic system in the 1960s and 1970s, along with the persistence of authoritarian regimes in the 1980s in some countries of the region, have historically driven migratory flows as an added pressure to economic factors.

In several Latin American and Caribbean countries, international remittances from emigrants represent an important proportion of GDP and constitute an additional source of income for recipient families, who use them primarily to support consumption, but also to pay for educational expenses, to purchase a house and/or make home improvements, and to undertake other forms of savings and investment. Empirical evidence also indicates that remittances have a positive though small effect on poverty, although their effects on growth are *inconclusive*. Emigration pressures from Latin America reflect the combined effects of persistent developmental gaps, economic crises, and unstable democracies in the last three decades in Latin America. Still, the picture is evolving, and intraregional migration is another phenomenon to be considered, along with the diversity in developmental experiences across countries that drive immigration and emigration flows.

This chapter and [Chapter 4](#) drew upon the discussions in [Chapters 2](#) and [3](#) (the determinants of migration, and the relationship between capital and labor mobility) to provide a synoptic analysis. In [Chapter 6](#), we concentrate on the individual face of migrants, and in particular those who are considered “talented elites.”

## SIX

### Who Migrates and What They Offer: A Focus on People and Elites with Talent, Knowledge, and Entrepreneurial Skills

Globalization has significantly increased the international mobility of highly talented people and “knowledge workers” from developing countries and post-socialist economies to wealthy OECD countries. This group includes a vast array of people – technology entrepreneurs, information technology (IT) experts, first-rate scientists, bright graduate students, skilled physicians, and gifted writers and artists. The number of these “high-value” migrants is far less than the number of unskilled people who are part of the “mass migration.” The proportion of foreign-born people with higher education is estimated at around 10 percent of the world’s total number of international migrants. But this relatively small group of internationally educated people contributes disproportionately to new technological development, business creation, social service provision, and other forms of human creativity, and they have a huge economic payoff. In turn, nearly 90 percent of immigrants with a tertiary education concentrate in OECD countries<sup>1</sup> – again with a disproportionate contribution that accrues primarily to wealthy countries, although as we saw in [Chapter 3](#), source countries may also *potentially* benefit from these flows. We are confronting a situation in which most of the demand for talented individuals with important economic value is concentrated in the “north,” while part of the supply of the new talent comes from the “south,” in which such countries as China, India, Russia, Poland, and, to some extent, Latin American countries are becoming

<sup>1</sup> Docquier and Marfouk, 2006.

an important source of talented people in business and academia. In turn, the Philippines, various Caribbean and Sub-Saharan countries and small states are main source countries of medical doctors and nurses to the advanced countries. These trends, although understandable given the new knowledge economy and the overall globalization process that has increased the demand for “knowledge people” enormously, may have distributional consequences worldwide to the extent that high-value, highly productive individuals are concentrated largely in wealthy countries, rather than dispersed uniformly across high-income, middle-income, and poor countries.

Associating talent only with people who have formal university education leaves aside productive talent found in people who may not have university degrees but who often play an important role in the organization of production and the surge of innovation. A key group consists of *entrepreneurs*. In turn, high-value migrants are often part of an international core of elites whose social connections can be as important as their formal education. The economics and sociology of these elites are very interesting. For example, the circuits of internationally mobile elites differ along such dimensions as the form of entry into foreign labor markets, as well as salary levels, career paths, promotion criteria, and so forth. One such circuit is the international private sector, with multinational corporations and international banks serving as important vehicles for the movement of executives, financial managers, and specialized engineers across borders. The movement of internationally mobile elites may also be more independent: small-size entrepreneurs, independent professionals, and graduate students who remain in a foreign country after graduation. In addition, the international public sector, comprising such organizations as the United Nations, the World Bank, the International Monetary Fund, the European Union, regional development banks, and a plethora of specialized organizations, is another main employer of professionals coming from the developing world.

The topic is vast. This chapter selectively considers issues that are apropos of discussions about international migration. The discussion includes further clarification of the new wave of internationally mobile elites, the special features of the international mobility of talent, the main

circuits in which these people work and study, and some statistical evidence in this area.

### 6.1 The Concept of Elites

The concept of elites, which comes from the French word for “elected or selected,” was developed and delineated by the “Italian school” of Vilfredo Pareto (1848–1923), a sophisticated economist and sociologist, and the political scientist Gaetano Mosca (1858–1941). Later, in the 1950s the American sociologist C. Wright-Mills, in his book *The Power Elite*, expanded the concept to include the economic, political, and military “power elite” in the United States. In Pareto ([1968]1991), the author viewed elites as people with special talents, abilities, and/or education – “people with exceptional qualities,” or those considered almost “superior members of society.” Pareto held a largely merit-oriented concept of elites. To him, membership in the elites changed over time: Parents can bequeath their money but not their talent to their heirs. Pareto then envisaged history as a circulation of elites, in which old elites are replaced by new elites, and, in the process, social change occurred with the introduction of new ideas. Although the main concern of Pareto was not the international circulation of elites, in an era of globalization this seems to be a natural extension of the concept.

In the *Ruling Class*, Mosca (1960) indicates that the main source of power for the *ruling* class of elites is their superior internal organization, enabling them to “preside” over the vast majority of society despite their numerically small group. These organizational skills were especially useful in gaining political power in modern bureaucratic society. The members of elites are intertwined through social connections, marriage, the ownership of productive assets, a commingling of ideas, and so forth. In our analysis, we make a distinction between two other privileged groups that are sustained by the ruling elites and are the “movers and shakers” in the global marketplace:

- *Merited and talented elites* – people who apply their skills, ideas, and talents to production, innovation and business, academia, and



social and cultural activities in a fairly competitive environment or as part of multinational corporations and public international organizations, with their appointments and promotions made more on the basis of merit.

- *Politically connected elites* – people whose trans-generational and familial connections with those in power are instrumental in enabling them to accumulate wealth and reach prestigious positions in organizations and society.

For purposes of *international* migration, we can say that talented elites, consisting of people with special abilities, higher education, entrepreneurial traits, and artistic and creative capacities, are internationally more mobile than politically connected elites, albeit political elites may be forced to emigrate when they are on the losing side in Civil Wars, internal conflicts, or coups d'état.

Human talent (specialized engineers, IT experts, entrepreneurs, international investors, scientists, artists, and graduate students) is a key economic resource and a source of creative power in science, technology, business, arts, culture, and other related activities. The economic value of talent has increased with globalization, the spread of new information technologies, and lower transportation costs as many more people than in the past have access to the new products, services, and ideas that these talented individuals promote or fund. In an era in which knowledge and expertise are highly valued, the services of *talented* elites will be in greater demand. In contrast, *politically connected* elites are tied to political circumstances and social connections that are primarily country specific. In fact, migration and international circulation may imply losing those political connections or gaining new ones. A study (Spilimbergo, 2009) has shown that in many countries, political leaders such as heads of state, presidents and prime ministers studied abroad before engaging in politics. In fact, leaders of different political and ideological orientations in the last five to six decades were trained abroad and pursued university studies in a variety of countries including the United States, Germany, the United Kingdom, France, the former Soviet Union, Cuba, South Africa, and others. This process of education abroad not only was a way to acquire knowledge, but also of socializing and

establishing new contacts abroad that probably was of importance for their future political careers.<sup>2</sup>

The concept of “power elite” could be extended to the international arena in terms of a “global power elite,” consisting of *economic* elites: CEOs of multinational corporations, senior managers of international banks, senior staff of international organizations, heads of state, influential intellectuals and journalists, and others. In this chapter, we focus more on the international mobility of “talented elites” rather than power elites, although some of the talent is also part of that group.

With that perspective, this chapter discusses the different types of talent, the international market for talent and its peculiarities (such as the characteristics of winners-take-all markets), the concentration of talent in higher-income countries, the peer interactions that are essential for developing creativity, the differences between the private- and public-sector circuits and the heterogeneity within each, and the markets for talent.

## 6.2 The Value of Talent and the Value of Political Connections – Each Has Economic Rewards to Elites

The economic rewards to elites can be huge, especially as that talent is applied to new goods and services. In the United States, data from the Federal Reserve Board indicate that in 2004, 9 million people had a net worth of more \$1 million, 1.4 million a net worth above \$5 millions, 530,000 a net worth of more than \$10 million, and 110,000 a net worth above \$25 million.<sup>3</sup> These are the “rich.” But there is an even more special group – the super-rich or mega-rich, with much higher levels of wealth. Several years ago, *Forbes Magazine* started to compile a list of the “super-rich” – this much smaller but still growing group. The publication first focused on the super-rich in the United States and then expanded it

<sup>2</sup> Examples of leaders that have studied in the United States include Benazir Bhutto (Pakistan), Ehud Barak (Israel), Vicente Fox and Carlos Salinas de Gortari (Mexico), Michelle Bachelet (Chile); in Russia, Jose Eduardo Santos (Angola) and Deng Xiaoping who studied in France. See Spilimbergo (2007 [https://mail.google.com/mail/html/compose/static\\_files/blank\\_quirks.html#CBML\\_BIB\\_000\\_111](https://mail.google.com/mail/html/compose/static_files/blank_quirks.html#CBML_BIB_000_111)).

<sup>3</sup> Frank, 2008.

worldwide to include now more than 75 countries. The net worth of the super-rich includes physical and financial assets, real estate, and valuable art objects (human capital is not included as a measure of wealth). Currently, the threshold used by *Forbes Magazine* to define the super- or mega-rich is a net worth of \$1 billion.

The list of billionaires in the world for 2007 includes a group of nearly 900 people in such different sectors as the information technology and communications industry, oil, banking and finance, real estate, entertainment, and other sectors. The list includes, for example, Bill Gates, the founder of Microsoft, who in his early 50s has a wealth of \$56 billion. The co-founders of Google – the Russian-born Sergey Brin and the American Larry Page, at 33 and 34 years of age, respectively – have an equal wealth of \$16.6 billion. Celebrities in cinema, arts, literature, and sports are also in the group. American moviemaker Steven Spielberg, for example, has a wealth of \$3 billion. Italian fashion designers Giorgio Armani and Luciano Benetton (along with his wife Giuliana) have respective wealth of \$4.5 billion and \$2.8 billion. Media-mogul and the twice prime minister of Italy, Silvio Berlusconi (and family), has a wealth of \$11.8 billion according to *Forbes*.

There are at least two interesting features of the *Forbes* list of billionaires. The first is that, in terms of the value of wealth, these super-rich are concentrated in wealthy countries. The second is that, as a proportion of the GDP of the country in which this wealth was generated (and where the billionaires reside primarily), the relative *shares* of wealth tend to be higher in some middle-income countries, such as Mexico, Russia, India, Brazil, and Chile, than in the most advanced countries. In fact, a new group of billionaires is now emerging in developing countries and former communist nations.

The international elite of the super-rich benefits from globalization as market size increases and the transfer of the most up-to-date technologies becomes more feasible. The emergence of billionaires in Russia, China, India, and Latin America since the 1990s suggests that the opportunities for wealth creation that exist within developing and former socialist countries might not be predicated on the availability of resources and opportunities that have traditionally been available by advanced countries. A critical question, then, is the extent to which such huge wealth

and fortune are due solely to ingenuity, hard work, bright ideas, and good luck in competitive markets (that is, *rewards to talent and merit*), or whether they might also have been created with the “helping hand” of people located in powerful places, who gave them special licenses to run business monopolies, or granted them special subsidies, tariff protection, or subsidized credits, or allowed them to privatize formerly state-owned enterprises in noncompetitive and nontransparent ways. In these respects, some wealth creation comes as a *reward to political connections*.

In Mexico, Carlos Slim is one of the top wealth-owners in the world according to *Forbes*. Mr. Slim acquired TELMEX when the state-owned telephone company was privatized by the Mexican government in the early 1990s. In addition, he received a sole license to run the company in the telephone sector, turning it into a private monopoly with millions of clients. His is not the only case of huge wealth created from the privatization of former state-owned enterprises in a process laden with different degrees of inside information and political connections. In fact, it is well known that several of the current billionaires in Russia were active in the privatization of natural-resource companies in the 1990s after the collapse of communism. Some of the new entrepreneurs were active members of the former soviet elite *nomenclature*, running state-owned companies during the Soviet period. In many cases, political connections seem to be a critical influence in the ability of individuals to use their talents to make big money.

### 6.3 Inside the Talented Elite: A Variety of International Market Destinations Exist for Different Types of Talent

Talent can be a resource for enhancing current production (information technology experts), generating jobs and stimulating the economy (entrepreneurs), creating and dispersing a knowledge base (scientists), providing a social service (nurses and physicians), or capturing imaginations and hearts (artists). If these internationally talented elites work in transnational corporations, international organizations, international banks, universities, or government organizations, they usually wield considerable influence at the national and international levels, because

they are often well connected and shape ideas, values, and beliefs, or are decision-makers themselves.

Most of the discussion of brain drain and talent mobility in the literature focuses on an aggregate of “human capital.” This analytic simplification masks the reality that many different types of talent have different motivations to move to different international destinations, with varied developmental impacts. Here, we classify three broad types of talent mobility (Solimano, 2008):

1. *Directly productive talent* (entrepreneurs, executives, managers, and technical engineers)
2. *Scientific talent* (academics, scientists, and international students)
3. *Health and cultural talent* (physicians, nurses, artists, musicians, writers, and media-related people)

Each of these categories has a different international market open to them – a region or country of the world where the forces of human-capital supply and demand are at work (discussed in the next major section), and where these three categories naturally gravitate. In addition, two other transnational circuits exist that would employ any or all of these categories of talented elite – international public institutions, multinational corporations, and international banks. Of course, talented people also emigrate outside the circuits of internal organizations and multinationals in independent fashion. The rest of this section discusses this international market segmentation to which the skills and talents of elites cater.

#### a. Where Productive Talent Moves

*Entrepreneurs, Executives, and Managers.* Different people play different roles in the production process. The most critical actor is the entrepreneur. Entrepreneurs are not necessarily people with a high stock of formal education. Their distinctive characteristic is to take risks and show a capacity or talent for combining the capital and labor necessary to realize a vision of opportunity and prospective profits. In the Schumpeterian tradition, entrepreneurs are agents for mobilizing resources and investment and for promoting innovation. In addition, the “psychology” of the entrepreneur certainly differs from that of the scientist, the expert, or the intellectual

with whom we usually associate the term “human capital.” In contrast, professionals, scientists, and engineers are often employees rather than owners, and are supposed to be more risk-averse than entrepreneurs. From an international perspective, entrepreneurs can transfer their innovative and wealth-creating capacities from one country to another. As described in [Chapter 3](#), entrepreneurial migration has historically played an important role on development in both the “north” (and center economies), such as the United States and Europe, and the “south” (or peripheral economies), such as Argentina, Australia, Brazil, and New Zealand, among others. In fact, the immigration of people with entrepreneurial capacities and a favorable attitude toward risk-taking has contributed to business creation, resource mobilization, colonization, and innovation – all factors that supported economic growth – in so many countries of destination. In the Atlantic economy of the 19th and early 20th centuries, successful entrepreneurs and bankers – such as Mellon, Vanderbilt, Carnegie, and Rockefeller, and, more prominently, the famous banking dynasty of Rothschild, with operations in London, Zurich, Paris, and other financial centers – were foreign-born or first descendants of immigrants ([Box 6.1](#) provides one example of the contribution such entrepreneurs also brought to their country).<sup>4</sup> In the south, Argentina was the main recipient of migrants with entrepreneurial skills in the late 19th and early 20th centuries. This country relied, as noted before, both on net immigration (entrepreneurs and working class) primarily from Spain and Italy, and on capital from England and Germany for its economic development, using both to mobilize its vast natural resources. The Chinese Diaspora has been an important source for the supply of entrepreneurs in South and East Asia, as have Palestine and Syria for the supply of entrepreneurs in South America. More recently, in the late 20th and early 21st centuries, entrepreneurial emigrants from India, Taiwan, and China have provided an important human resource to support the creation of high-technology industries both in hardware and in software in Silicon Valley in the United States. Their participation in this high-tech sector has been a saving grace for a faltering U.S. economy.

<sup>4</sup> An interesting narrative of the financial and political role played by the Rothschild family appears in Ferguson (1999).

### Box 6.1 Philanthropy by Successful Immigrants

It is interesting to note that the Mellons, Rockefellers, and others, besides accumulating huge wealth, had an interest in creating centers of education and learning. In fact, they helped establish universities and created private foundations devoted to educational pursuits. Carnegie, a Scottish immigrant, was, in particular, one of the pioneers in the formation of the system of public libraries in the United States at the turn of the 20th century. Later on, such names as George Soros, an immigrant from central Europe escaping Nazi persecution in the 1930s, turned abroad to become a very successful financier. Soros is another case of a talented financial investor with a philanthropic bent that is manifest in the creation of the Soros Foundation and the network of Open Society Institutes throughout the world.

The second important segment of production consists of executives and managers – individuals who direct the organizational structure of production within companies and design and implement production and marketing plans. They are often employees of multinational corporations. In addition, they are in charge of the daily operational flow of companies and have bottom-line responsibility for securing and enhancing corporate value for the owners or shareholders. Their destinations include countries to which corporations have expanded in a multilateral way.

*Technical Engineers.* “Technical talent” refers to people who are experts in IT, telecommunications, and computer science. These people often hold a university or advanced technical institute degree in mathematics, engineering, or computer science. They can be developers of new software and hardware in the information industry, or be engaged in applications in industry, services, the banking sector, government, and so forth. The late management theorist Peter Drucker (2000) referred to these people as “knowledge workers” and underscored their growing importance in the “new economy” driven by knowledge and new technologies. More recently, management books refer to them also as owners of “intellectual capital.” Among the main

exporters of technical talent in the world's economy are India, China, Russia, and Taiwan. Russia, in particular, became a major source of engineers after the collapse of the Soviet system – as did Poland and other former socialist countries. Main destinations for technical talent coming from developing countries and former socialist nations are OECD countries and Israel.

The mobility of this technical talent depends on how IT services are delivered. For example, in the United States, IT services are delivered as both on-site services, which require the physical presence of the expert, and off-shore development, which may be delivered from the origin country of the IT firm, although some traveling of the expert may be involved as well.<sup>5</sup> The diaspora of technical talent is often referred to as a “brain bank” whose “(human) capital” is provided by the stock of talent from abroad (see [Chapter 3](#)).

#### **b. Scientific Talent: Where Academics, Scientists, and International Students Move**

Scientists and academics comprise another brand of talent. They may belong to branches of the physical and life sciences, such as physics, math, chemistry, and biology, or to branches of the social sciences, such as anthropology, sociology, political science, and economics. These people are internationally mobile; those with good qualifications are well published and have international contacts in universities and research centers throughout the advanced world, thus facilitating their eventual emigration. Scientists and academics leave their home countries because they are attracted by higher salaries abroad, can augment their knowledge base and share their own, have an opportunity to interact with peers of international recognition, and can fulfill their career dreams. These attractions can be considered “pulling factors.” Later in this chapter, we highlight a set of “pushing factors” that induce scientists and academics to emigrate from their home countries, such as low salaries and low budgets to support research, limited professional recognition, poor career prospects, and the absence of a critical mass of peers. In turn, political,

<sup>5</sup> McKinsey Global Institute, 2005.



racial, or religious persecution in origin countries is also pushing factors for the emigration of scientists and intellectuals, a topic that was discussed in depth in [Chapter 3](#).

As would be expected with this group, future academics and scientists move to foreign countries as graduate students to complete their master's degree, obtain their doctorate, or pursue a post-doctoral fellowship. As we saw in [Chapter 3](#), the number of international students is large (close to 2.7 million in 2004). The single largest destination country is the United States, receiving approximately 573,000 overseas students; one-fourth of which is from China and India combined. These students often go to the United States or other OECD countries to study. Some of those students return home after graduating abroad, while others remain in the destination country to work in universities, research centers, and industry. A new concern about the transmigration of international students is that changes in global job markets for scientists and technology experts can start eroding the traditional dominance of the United States in high-tech sectors; part of it is now shifting to large-size, low-income to middle developing countries such as China and India, which have developed capabilities in this area.

Harvard professor George Borjas (2006) shows that the growing influx of foreign students engaged in doctoral work in the science fields has depressed the earnings of native-born professionals working in these areas. He estimates that a 10 percent immigration-induced increase in the supply of doctorates has lowered the wages of competitive professionals by about 3 to 4 percent. He attributes this negative effect not only to an increase in the supply of doctoral graduates, but also to the fact that foreign post-doctorates often accept lower-paying job appointments in the destination country.

### c. Where Health and Cultural Talent Moves

A specific outflow of talent has become worrisome for developing countries, particularly for the poorest ones – that is, the exit of professionals in the health sector, primarily physicians and nurses. As discussed in [Chapter 3](#), high-income OECD countries are main destination countries for physicians and nurses (particularly the United Kingdom, the United

States, Australia, and Canada). The main origin countries of these health professionals in the developing world are the Philippines, India, and several African and Caribbean countries. In 2002–03, the three main origin countries of overseas-trained nurses specifically in the United Kingdom were the Philippines, India, and South Africa.<sup>6</sup> The demand for foreign-born professionals in the health sector seems to be associated with a supply shortage of native-born health-sector professionals. With a much higher incidence of various diseases such as malaria and HIV/AIDS in developing countries, particularly in sub-Saharan Africa, the paradox – from a social point of view – is that much-needed medical personnel leave their home countries where they are in high demand (the ability to pay for their services aside) to seek better salaries and better prospects for career development abroad. The flow of talent is not always from developing countries to advanced nations (or south–north). Some developing countries with a high supply of medical personnel (Cuba and China, for example) send physicians to other developing countries (a south–south flow) that are suffering from health crises or natural disasters, and to help set up national health systems to which these professionals can make a valuable contribution. It is estimated that nearly 20,000 Cuban doctors are serving in other developing countries as part of government policies that push regime and development solidarity and international exposure. Physicians and nurses also move between advanced countries to a great extent. For example, from 1990 to 2000, almost 7,000 Canadian physicians left the country, primarily to the United States, and less than 3,000 returned home.<sup>7</sup>

Foreign health professionals are often subject to lengthy, complex, and expensive licensing procedures that, in effect, are an effective entry barrier to the local labor market for foreign health professionals. At the same time, a scarcity of health professionals in such advanced countries as the United States and the United Kingdom has given foreign-born health professionals greater access to working visas than other professionals.

An interesting market for creative talent is the “creative industries” that channel the activities of painters, writers, singers, musicians, film

<sup>6</sup> Bach, 2008.

<sup>7</sup> Bach, 2008.

directors, designers, and others.<sup>8</sup> In the creative industry, uncertainty often surrounds how markets will value new paintings, new books, new films, and other products of creative people. This certainly has an impact on the behavior and choices of publishing houses, record companies, film studios, opera houses, and so forth.

Stories of market difficulties in initially appreciating talent and quality are illustrated by the Colombian Gabriel Garcia Marquez, Nobel Prize winner in literature in 1982, who found it difficult to find a publishing house that would market his novel *One Hundred Years of Solitude*, for which he in fact won the Nobel Prize. Similarly, J. K. Rowling, the British author of the *Harry Potter* series, reportedly had trouble finding an editor for the first installment of her saga. Of course, when both authors became well established and turned into “celebrities,” the publication offers were abundant. In the world of painting, it is well known that while a van Gogh today is auctioned at many millions of dollars, the painter lived and died in poverty and misery as the market at that time failed to appreciate his artistic talent and remunerate him accordingly.

#### d. Mobility in International Public Organizations

The IMF, World Bank, the regional development banks, the United Nations, the OECD, and a plethora of multilateral organizations and development agencies at the global and regional levels comprise what can be called “the international public sector.” International organizations ultimately respond to governments. The formal mission of several international organizations is to promote international development by providing technical assistance, lending money (from development banks), and generating and disseminating knowledge. These institutions require qualified professionals to conduct their activities. Some of them have more professional and technical bureaucracies, and hiring at the professional level tends to be more merit based and competitive. In turn, their salary levels and benefits are often much higher than the salaries paid by national governments in

<sup>8</sup> Caves, 2000.

the developing world. This is the case with the IMF, the World Bank, and OECD, in which advanced countries have a strong influence in setting the priorities, rules and procedures, and mission of these organizations. In contrast, developing countries have more participation and influence in the United Nations and associated organizations, but career possibilities and promotions in this institution are influenced more by politics, gender, nationality, and sometimes patronage.

The professional staff of the most prestigious (some would say better paying) international organizations could be considered a “*merit elite*,” often consisting of economists, engineers, social scientists, health experts, environmental specialists, and people with other professional expertise. Many of them come from developing countries. They often hold advanced degrees (masters or Ph.D.s) from prestigious universities in the United States, Canada, and Europe, and they work for international organizations whose headquarters are located in Washington, D.C., Paris, London, Geneva, and other major international cities. (Chapter 2 discusses the lure of such cosmopolitan areas in greater depth.) International organizations are attractive to professionals: They offer internationally competitive salaries and benefits, stable careers, and a privileged position in which they and their staff have first-hand involvement with developmental issues. In turn, the senior management of international organizations also draws “*politically connected elites*” who held senior positions in the governments of member countries, such as former finance ministers, governors of central banks, foreign ministers, and other senior staff.<sup>9</sup> In some international organizations, however, appointments and promotions of staff at different levels are influenced by personal connections, nationality, and other considerations, with professional merit not being necessarily the decisive consideration.

<sup>9</sup> Jean Marc Coicaud (2008) from the United Nations University in New York studied the international mobility of professionals in various international organizations and found that the United Nations had a pervasive system of short-term contracts for professionals that make career paths uncertain and discourage the attraction of first-rate professionals. In addition, its salary levels and other benefits are lower than those offered by the Bretton Woods institutions, the European Union, and other international organizations.

### e. Mobility in Multinational Corporations and International Banks

In the international private sector, multinational corporations and international banks often transfer some of their key management abroad when opening foreign branches and operations. The CEO of multinational corporations may be an employee brought in from headquarters or, alternatively, a national hired locally. Some corporations or international banks prefer to transfer some key members of their senior management, such as the general manager and the financial managers, from headquarters. International investments often require that managers move around the world to establish contacts in foreign markets and make business deals. In addition, international investment projects may involve the transnational movement of engineers and skilled workers in the design, implementation, and actual operational phases of projects. Some of these people may move only temporarily (for a few months), while others may move on a more permanent basis (for several years). Salaries and career parameters of these personnel are often dictated by the human resource policies of the multinational corporations. The direction of flows may be to developing countries and OECD economies, both of which host the operations of multinational corporations.

## 6.4 The International Market for Talent Is Characterized by a Concentration of Rewards among a Few

Economists analyze many phenomena in the study of markets. In this case, the global market for talent, as in any other market, consists of the forces of supply and demand. Today, the *supply side* of the international market for talent includes, increasingly, well-educated and skilled individuals from developing countries and former communist nations. *It is a supply coming from the south.* For example, IT experts pour in to the north from India, Taiwan, and China, mathematicians from the former Soviet Union, physicians from South Africa, nurses from the Philippines, indigenous singers from Africa, and professionals and writers from Latin America among many other regions. Emerging economies are becoming

an important source of talented people – entrepreneurs, engineers, technical experts, scientists, artists, and the like, some of whom have earned their masters and Ph.D.s in U.S., Canadian, or European universities, but many of whom did their undergraduate work in their home countries, often financed by the state.

The *demand* for international talent is made largely by the north. It comes from corporations, universities, hospitals, and the information and communications industry that need people with special knowledge, abilities, and skills because they are often in short supply in the domestic labor market. As mentioned before, top universities in the United States (from economics to physics) have also swiftly increased their share of foreign faculty in the past 20 years or so, attracting well-educated and/or talented people, who are also often more internationally mobile than unskilled workers.

#### a. Winners-Take-All Market Theory in Talent Markets

A special feature of the international market for talent is the existence of *increasing returns to ability*, in which small differences in individual abilities can generate large differences in pay and reward. This is the essence of the winners-take-all market theory applied to arts, sports, and other activities involving talent. In fact, the number-one tennis player in the world makes an income several times larger than the second or third player, who can be nearly as talented as the number one who receives the main prize (and the most lucrative advertising contracts). In this context, the possibility of making super-normal rents attracts talent to these activities. Rich OECD countries often concentrate the main part of these winners-take-all markets.

Frank and Cook (1995), in their book on “winners-take-all markets,” argued that the lure of such rents attracts an *excessive* amount of talent to these activities compared to what is socially optimal if the true probabilities of making the big prize were known *ex ante*. Consequently, many people may be wasting the investment of “youth” to develop the winner’s talent, attracted by the possibility of becoming “superstars” in their fields and receiving huge monetary rewards. In contrast, occupations that have an important social value but whose actual pay is comparatively

modest (teachers, public employees, and physicians in public health systems) may not lure an adequate number of domestic talent. In that case, immigrants may fill these positions, as they do among many physicians and nurses.<sup>10</sup>

### 6.5 Talent Concentrates in the North because the Costs Are as Attractive as Its Rewards

Wealthy countries are particularly attractive places because they provide a better environment for talented people to develop their careers: Salaries are usually higher, markets are larger, and new technologies are more accessible than in developing countries. Authors such as Richard Florida (2005) have constructed “creativity” and talent indexes, which show that talent is concentrated largely in OECD economies. More than 50 percent of Indian, Philippine, Chinese, Pakistani, Brazilian, Colombian, Nigerian, Indonesian, Sri Lankan, Sudanese, and Tunisian immigrants living in the United States have a *tertiary education*. In contrast, only 14 percent of Mexican immigrants to the United States (the main origin country of migration to the United States) have a tertiary education, and only 20 percent of Guatemalan immigrants in the United States have a tertiary education.<sup>11</sup> This suggests significant differences in emigration rates across developing countries for individuals with a tertiary education.

Summing up, recent research on the international mobility of talent identifies at least four main reasons that drive international migratory flows of qualified human resources “northward” from the south (Solimano, 2008):

1. High earnings and developmental gaps in the south
2. Complementarities among talent, capital, and technology in the north

<sup>10</sup> Another factor discouraging “outstanding” talent is the flat remuneration structure offered by “tiered” or bureaucratic organizations – government agencies or certain international organizations – that may fail to attract the best talent seeking large earnings.

<sup>11</sup> Kapur and McHale, 2004.

3. Distorted rewards and pervasive political connections in the south (and in the north)
4. Special immigration policies for attracting foreign talent to the north

**a. Earnings Differences and Developmental Gaps  
in the South Are Large**

In general, the allure of better pay, higher earnings, greater opportunity, and more challenging working conditions in the north; more secure property rights for entrepreneurs; more resources and possibilities for merit-based careers for scientists and scholars in universities; and larger markets for the arts – these are among the host of important factors driving the best and the brightest to leave developing and transition economies. As discussed in [Chapter 2](#), developmental gaps across countries – differences in living standards and productive potential among countries – constitute a macroeconomic concept that is manifest by the superior income-earning opportunities in the north. At the micro-level, if a software developer in Russia makes an income that is just a fraction of what he or she can earn in the United States or the United Kingdom (or even performing another job), then the Russian expert will at least try go to work in the higher-paying country. If a physicist is offered better working conditions and more resources to do research in the universities in Canada or the United States than what he or she finds in Bolivia or Nigeria, he or she will probably leave. Developmental gaps would predict a flow of talented individuals from lower- to higher-income countries where resources to develop talent are more abundant. In turn, the exit of talent from a poor country can reinforce a development gap and make escape for them more difficult (a poverty trap).

**b. The Concentration of Talent, Capital, and Technology  
Can Reach a Critical Mass**

Talented individuals rarely will develop their full potential by working in isolation. A new idea, a new product, a new production process, or a new R&D theory requires human interaction and cooperation. An



entrepreneur needs access to capital, markets, and technology to develop his or her new ideas and visions. A scientist needs a certain number of peers to discuss his or her theories and present research papers. An artist needs the creativity found in the milieu of other artists with whom he or she interacts to gain a larger, more critical public.

These creative people may be compelled to leave their native countries also by the allure of interacting with peers of international recognition and their desire to locate in areas that offer resources for more intense research. An example of the concentration of talent is the case of technological entrepreneurs from different countries who flocked to Silicon Valley because they found it to be a stimulating place in which other technological innovators gathered and developed their products, and in which venture capital was available to finance innovations (Box 3.5 in Chapter 3 highlighted some of the features of this concentration of talent). In the field of arts, painters such as Amedeo Modigliani, Pablo Picasso, and many others located in Paris during the 20th century, because it contained other creative painters, as well as artistic grist to apply to their careers. Princeton University attracted Albert Einstein and others from the best physicists in the world in the mid-20th century because it offered a collegial and resourceful environment to conduct research. In addition, Latin American writers and actors, such as Isabel Allende, Gabriel Garcia Marquez, Mario Vargas Llosa, and Salma Hayek have written their best novels or developed their acting careers outside their country of origin. It is quite likely that these people would have faced adverse environments had they remained at home, in environments with smaller critical masses of professional peers and smaller markets. They may not have become recognized, or faced poor career prospects, or earned modest incomes. They would have been demoralized and unmotivated, ultimately frustrating and killing their creativity and innovation.

c. Driving Away Talented Elites Are the Costs of Doing Business, Distorted Rewards, and Rent-Seeking in Origin Countries

Along with the *pulling* factors that attract the talented to the north (as we delineated earlier), we also have various *pushing* factors in the

south (or north or east) that conspire against *retaining* their most talented people. Various factors tend to drive away the talented elite. The pushing factors can be of a different nature according to the activity. In the case of entrepreneurs, high taxes, expensive capital, poorly trained labor, weak property rights, and unstable macroeconomic conditions are pushing factors for individuals who want to create wealth. These factors are behind the “Lucas Paradox” (discussed in [Chapter 4](#)), explaining why too little capital goes to poor countries.<sup>12</sup> In “unfriendly investment climates,” the entrepreneur, with his or her talent for creating wealth, may decide to put money abroad and/or move and to try his/her chances in a different country. The World Bank has tried to apply some empirical content to the notion of “investment climates” by focusing on the “costs of doing business” – the cost of constructing a factory, obtaining permits and licenses, paying taxes, hiring and firing labor, possibility of macroeconomic crises, and so forth. These studies have found that – on average – lower- and middle-income economies have *higher* costs of doing business than wealthy countries. Thus, if an entrepreneur finds that engaging in a new business in his or her origin country is too expensive because of the necessary web of permissions, approvals, red tape, and bureaucracy, then he or she faces a *pushing* factor. This point was made a couple of decades ago by the Peruvian economist Hernando de Soto, who documented long waiting periods (from one to two years or more) to obtain the necessary permits and

<sup>12</sup> Murphy et al. (1991) tried empirically to assess patterns of talent allocation among what the authors called “productive and rent-seeking” activities. For that purpose, they used the share of engineering-based enrollment in college of total college enrollment as a proxy for talent allocated to productive activities, and the share of law-based enrollment in college of total college enrollment as a variable denoting talent allocated to unproductive, rent-seeking activities (admittedly this is a crude approximation, because lawyers are also required in the business sector in activities that create value). This variable was then used as an additional explanatory variable in growth equations in a panel that included 91 countries (or 55 countries with more than 10,000 college students) in the 1970–85 period. In the sample of all countries, the authors found a positive and statistically significant effect of the share of college graduates in engineering in an initial year on growth rates, and a negative but statistically insignificant effect of the proportion of college graduates in law. As the authors state, “the signs of the coefficients are consistent with the theory that rent-seeking reduces growth while entrepreneurship and innovation raises it.”

### Box 6.2 The Rewards to Entrepreneurship and the Allocation of Talent

Rewarding talent engaged in starting *new activities* and developing new products or techniques in which demand is difficult to anticipate – the distinctive role of the entrepreneur according to Schumpeter ([1911]1934) – presents obvious problems, because history literally does not exist for new activities and products. Both Frank Knight and Joseph Schumpeter underscored this point in their writings on the return on capital and entrepreneurship. For Schumpeter, the entrepreneur is somebody who breaks the “status quo” by innovating, and development is the shift between qualitatively different “circular flows” associated with a stream of new innovations led by the entrepreneur. This is different from the repetition of capital accumulation and growth under the same set of organizations and techniques (a “stationary equilibrium”). Frank Knight developed a key distinction between risk and uncertainty useful for the study of entrepreneurship and decision making in uncertain environments.

licenses to open a business in Peru.<sup>13</sup> Yet, as shown in Box 6.2, the entrepreneur who leaves his or her origin country in search of a more rewarding environment will not avoid all the costs implicit in his or her drive to be an innovator.

In practice, the difficulties of rewarding entrepreneurial talent may be related to weak property rights, a weak patent system for innovations, stiff taxation, and corruption.<sup>14</sup> An early study of the effects of talent allocation on the rate of economic growth (Murphy et al., 1991) shows that in economies in which rent-seeking is highly profitable – due to distortions, import protection, corruption, and lobbies capturing key state agencies – the return on wealth creation, innovation, and entrepreneurship is lower than the return on investment in devoting time and efforts to rent seeking. The result may be economic stagnation and poverty, because the return from talent is distorted against productive

<sup>13</sup> De Soto, 1989.

<sup>14</sup> Acemoglu and Verdier, 1998.

endeavors that could create wealth and contribute to a country's prosperity. As such, international differences in the comparable returns from rent-seeking versus wealth creation/entrepreneurial activities can cause the emigration of entrepreneurs from high rent-seeking countries to lower rent-seeking countries where entrepreneurial talent is more valued.

In the academic realm, national conditions also matter: Scholars, professors, and scientists certainly will look at their salary levels, the resources available for research, possibilities for publication, and prospects for an economically rewarding career devoted to scholarship and teaching. The absence of these conditions may be a pushing factor for emigration.

However, not all distortions of rewards take place in the south. Shortages of professionals in the medical sector or IT experts may be induced by remuneration levels that are too low to provide the required supply response from the domestic market to meet the demand for medical services – a factor that can also be complicated by restrictive visa regimes that artificially limit the total supply of these professionals (including immigrants) in the market. In fact, we observe that public health systems in certain wealthy countries are in chronic demand for physicians and nurses. Thus, the problem may be twofold: an inadequate remuneration structure to attract the right amount of professionals in certain areas (for example, medical services) and protectionist practices applied by medical associations to restrict entry.

In addition, the fact that H1-B visas in the United States are oversubscribed very rapidly (in some cases in one day, see below) shows that this market is in excess demand.<sup>15</sup> More liberal immigration policies would help clear the market.

#### d. Special Immigration Policies Can Attract Foreign Talent

The *shortage* of certain skilled professionals in wealthy countries is another important factor behind the increase in the demand for talent in the world economy. As stated earlier, immigration policies in wealthy countries are also much more favorable for international talent than for

<sup>15</sup> Funk Kirkegaard, 2007.

unskilled migrants.<sup>16</sup> While a unskilled worker coming to the United States to work on a farm or in the service sector of a big city must wait years to acquire a “green card” (permanent resident), an international investor, for example, can obtain an investor’s visa in one month. A highly specialized information technology expert can obtain a H1-B visa in one or two months.

This feature is also an important factor in facilitating the inflow of talent to these countries. Newly rich countries, such as Ireland, Singapore, Scotland, and others, are also formulating immigration policies and offering economic conditions that are favorable to the admission of people with higher education and special knowledge, as well as investors who bring capital and technology. Mature, advanced countries, such as Australia, the United States, Canada, the United Kingdom, Germany, and others, have created special visa programs for IT experts, nurses and physicians, international scientist, and graduate students. These programs compete with the efforts of developing countries to retain their internal talent or to attract it from other countries.

The United States, Canada, Australia, Germany, the United Kingdom, Singapore, and others have set up formal programs to attract talented people who are in short supply in their domestic labor markets, particularly in high-tech sectors. These programs are generally oriented toward a variety of people with specialized skills (such as engineers and other experts), provide visa and work permits for 3 to 5 years (often renewable with few delays in granting them), and are tied to employers and a concrete job offer.

In 2007, the quota of 60,000 H1-B visas allocated by the U.S. government was met in the first day of operation, indicating an *excess demand* for skilled professionals and specialized personnel from other countries in the world in a market rationed on the demand side by the quota on H1-B visas. In addition, the United States offers special visas for investors – the E-2 visa in which investors must show a net worth of US\$1 million and intend to invest around US\$750, 000 in the country. The United States also offers the L-1 visa program, related to the productive sector and designed to facilitate the intra-company transfer of personnel. Finally,

<sup>16</sup> An analysis of policies by countries in the “international competition for talent” appears in Abella (2006) and Kuptsch and Pang (2006).

the U.S. O-1 visa program is for people with “extraordinary (outstanding) abilities” and proven achievements (national or international prizes, outstanding publications, and so forth) in science, education, athletics, the arts, culture, cinematography, and TV production. This program is oriented toward “cultural talent” and “academic talent.”

In 2007, the European Union proposed the creation of a *blue card* visa program to attract individuals with special skills in high demand. The European Union estimates that it will need 20 million skilled workers during the next 20 years to fill labor gaps of qualified human resources. To qualify for a blue card, a migrant would need an EU job contract of at least two years, guaranteeing a salary of at least three times the minimum wage in the country to which they are applying, as well as health insurance.

Canada is also active in attracting highly skilled people. As of 2008, the country has more than 900,000 people waiting to migrate, of which 700,000 are considered skilled. Chinese migrants are the most common in Canada. This country applies a “point system” that attaches values to several individual characteristics such as age, degree of education and work experience, special skills, and language proficiency and adaptability. Canada also offers special visas to investors (a minimum of CAD \$800,000 is required, with a commitment to investing half that amount), as well as to entrepreneurs who establish a business and work directly in the management of a productive endeavor (in urban or rural areas) of Canada. Finally, the country has a skilled visa program in which, in contrast to the U.S. program, a person does not need an employer offer to apply; the idea is to give the skilled foreigner a footing equal to the footing provided to a Canadian national.

In 2008, the United Kingdom revamped its immigration system and created the Highly Skilled Migrant Program (HSMP). This system relies, like Canada and some other countries, on a point system based on age, education, earnings, experience in U.K. labor markets, and English language proficiency. The system has five tiers. Tier 1 is oriented toward entrepreneurs, innovators, investors, highly skilled individuals, and people with postgraduate degrees in the United Kingdom – in other words, the talent category. Tier 2 is oriented toward skilled individuals with a job offer, targeted primarily at nurses, teachers, and engineers. The

other tiers are geared toward low-skilled workers (tier 3), students (tier 4), and youths and temporary workers (tier 5). The United Kingdom also offers separate visa systems for investors (with a minimum net worth of 1 million pounds and an investment commitment of 750,000 pounds in the United Kingdom), entrepreneurs, and innovators in which full-time work in their endeavors is envisaged besides some monetary requirements. Scotland is another country that is active in attracting foreign talent in life sciences, finance, and software development within the general immigration framework of the United Kingdom.

Singapore also has very active recruitment programs for foreigners on a “strategic skills list,” including biomedicine, chemicals, electronics, finance, environmental services, health care, and info-communications and digital media. Singapore is becoming a global hub for manufacturing and finance, hosting multinational corporations and international banks. The country offers low costs of doing business, a policy of zero tolerance for corruption, and an excellent information, telecommunications, and transportation infrastructure.

In the developing world, China is starting to devise immigration systems for hosting international investors and foreign entrepreneurs, as well as for attracting qualified human resources. A similar effort is being made by India, although the main concern of India’s government and advocacy groups is how changes in immigration legislation in the United Kingdom and rules in the United States, Canada, Australia, and other immigrant-receiving countries can affect the immigration of citizens of Indian origin.

## **6.6 The Return Flow: Concentration in the North, Talent Circulation and Outsourcing**

This movement of prime human capital from low- and middle-income countries to wealthy nations may amplify developmental gaps and international inequality. A high concentration of human capital in the north hardly promotes a convergence in incomes and developmental levels across nations on different rungs of the developmental ladder. However, not all is bad news from the standpoint of international development. Talent also “circulates,” and not all talented people move from the “south” to the “north.” In fact, many talented individuals return home

after graduation or after years of working in the destination, often bringing with them new knowledge, technologies, capital, and contacts, all very useful cornerstones for national development. The story now is of a world in which Indian and Chinese nationals, for example, after graduating in the United States, have become successful entrepreneurs (in the Silicon Valley, for instance; see earlier [Box 3.5](#)) and who are uniquely positioned to serve as bridges between Asian and American markets given their contacts, access to technology, and capital in both economies. In the 1990s and early 2000s, these people started new productive ventures in their home countries, transferring technology and market knowledge. In the Latin American context, Chilean, Mexican, and Bolivian entrepreneurs are making successful inroads into biotechnology and mobile-phone companies in North America. Of the latter, the case of Marcelo Claure is interesting. Mr. Claure is a Bolivian who went to the United States in the mid-1990s to study and is now, at age 37, the founder and president of Brightstar Corporation, a cellular-phone corporation with annual sales of nearly US\$5 billion and which is projected to sell nearly 1.3 billion cellular phones by the year 2010. This is the largest company owned by a Latin American in the United States, according to *Hispanic Business 500*, and shows a strong Latin American presence in the evolving IT sector in the United States. This company also created new links and encouraged new investments in Mr. Claure's home country, Bolivia, where it opened plants. Similar plants have also been opened in Argentina, Brazil, and Mexico, and one is being considered for Nigeria.

The mobility of people is linked to the mobility of capital, as we discussed in depth in [Chapter 4](#). This is particularly true of the mobility of talent and human capital. On the one hand, talent from developing countries can chase capital in the north, and, on the other, capital in the north can chase talent in the south. In the first case, talent will move north seeking to capture the gains from moving to economies where people are equipped with more capital, technologies, and effective organizations. In the other case, capital from the north chooses to locate part of its operations in the south, setting up plants in countries with a good availability and less expensive talent than the talent that can be hired in advanced countries.



A third possibility is outsourcing: Firms do not move plants abroad but buy inputs, parts of the production process, and goods produced in foreign countries that enjoy lower wages, less expensive human capital, and a level of technical development that allows them to produce goods and inputs that are of a quality acceptable in the markets of advanced countries. Outsourcing reduces the demand of companies for immigration in the sense that, rather than bringing labor from abroad, they demand foreign labor indirectly by buying goods, inputs, and services produced by foreign companies often located in developing countries, taking advantage of cheaper labor costs.

### **6.7 Empirical Evidence Shows that Talented Elites Will Be Going to Economies that Are at the Top of the Developmental Ladder**

To provide some empirical idea of the international distribution of talent across countries, we first examine the empirical “global talent index” produced by the consultant firm of Heidrick and Struggles and the Economist Intelligence Unit (2007). The “global talent index” uses certain variables that try to measure for different countries the quality of compulsory education, the quality of universities and business schools, labor-market mobility and openness (for example, the extent to which foreign nationals are hired), the share of students studying abroad or foreign students enrolled in domestic universities, the language skills of workers and professionals, foreign direct investment, the degree of merit-based remunerations, the number of R&D researchers, GDP per capita, and the protection of property rights. Several of the variables used to construct the indexes can be considered factors that enable countries to develop skills and talents more effectively; some of these variables, in fact, were highlighted in [Chapter 2](#) as pertaining directly to the international mobility of talent. In this global talent index, the United States is ranked in first place, followed by Canada, the Netherlands, the United Kingdom, Sweden, Germany, and Australia. China is in eighth place in the ranking and India in tenth (see [Table 6.1](#)).<sup>17</sup> The Index is probably

<sup>17</sup> The authors of the index point out that these two giant countries will move up in the rankings in the next five years or so.

Table 6.1. *The global talent index (GTI), 2007*

Top 10 Countries			Selected Developing and Transition Economies		
Rank	Country	GTI Score	Rank	Country	GTI Score
1	United States	52	8	China	52
2	Canada	47	10	India	47
3	The Netherlands	46	17	Argentina	46
4	United Kingdom	46	18	Russia	46
5	Sweden	45	19	Ukraine	45
6	Germany	43	21	Mexico	43
7	Australia	43	23	Brazil	43
8	China	42	24	South Africa	42
9	France	41	25	Egypt	41
10	India	39	27	Nigeria	39

*Notes:* Data have been normalized in order to obtain scores from 1 to 100, where higher scores mean better performances on the talent measures. Index ranks 30 countries.

*Source:* Heidrick and Struggles and the Economist Intelligence Unit (2007).

focused more on the availability and mobility of “productive talent” – talent engaged in the business sector – and in academia. It is interesting that two large, low- and middle-income countries such as India and China are in the top ten list of global talent, not very far from countries whose per-capita income levels are much higher. Another interesting note is that developing countries and “emerging economies,” such as Argentina, Russia, Ukraine, Mexico, Thailand, Indonesia, and Iran, are ranked in the 15–30 range.<sup>18</sup>

## 6.8 The Use of Talent Is Another Way to Look at Its Distribution in the Global Economy

One measure of the creation of new knowledge in the academic and scientific arenas is the number of scientific and technical journals published

<sup>18</sup> In general, a direct correlation exists between the level of a country’s economic development and its place in the talent index. Again, however, this is not *proof* of causality. It might well be that wealthy countries attract more talent because they offer more attractive economic conditions, and, at the same time, that these countries are wealthier because they have a higher stock of well-educated and talented people either born at home or migrating from abroad.

Table 6.2. *Scientific and technical journals, by country of publication, 2002*

Country	Number of Publications	% of World Publications
United States	195,792	30.58
Japan	55,085	8.60
United Kingdom	45,269	7.07
Germany	41,863	6.54
France	29,928	4.67
Canada	22,555	3.52
Other OECD countries	128,050	20.00
Rest of the world	121,631	19.00
World	640,173	100.00

Source: Author's own elaboration based on data from World Bank's WDI (2007).

in a country and their share of such publications worldwide. According to Table 6.2, nearly 80 percent of scientific and technical journals are published in OECD countries. The top publisher is the United States, with nearly 31 percent of the world's scientific and technical journals, followed by Japan (8.6 percent of world publications), the United Kingdom (7.1 percent), and Germany (6.5 percent), see Table 6.2. Although some researchers from developing countries certainly publish in these journals – working either in first-world nations or in their country of origin – these figures certainly suggest a high concentration of scientific talent doing research and publishing in wealthy countries.

#### a. The Number of Nobel Prizes in the Sciences Is Another Measure

The Nobel Prize is certainly the most prestigious recognition of talent in the world, granted in physics, chemistry, biology, other sciences, and economics. In the 1980–2007 period, the strong dominance of Nobel Prize recipients in the sciences came from advanced countries – the United States, the United Kingdom, Germany, France, Japan, and others. Table 6.3 provides a breakdown of the proportion of Nobel Prize winners in various fields in the United States, the United Kingdom, and Germany who are immigrants. In the United States, their share is 29 percent; in the United Kingdom, 25 percent; and in Germany, 26 percent. These

Table 6.3. *The prize for Talent: Nobel laureates in science and economics are very concentrated in high-income economies (1980–2007)*

Countries	Physics	Chemistry	Medicine	Economics	Total
USA	32	25	31	26	114
USA (immigrants)	8	10	8	7	33
United Kingdom	0	4	8	4	16
United Kingdom (immigrants)	0	1	2	1	4
Germany	6	4	4	1	15
Germany (immigrants)	4	0	0	0	4
France	2	2	1	1	6
Japan	1	4	1	0	6
Sweden	1	0	4	0	5
Switzerland	2	2	1	0	5
Canada	2	1	0	1	4
The Netherlands	3	1	0	0	4
Other Countries	5	4	4	3	16

Source: Author's own elaboration based on data available at <http://nobelprize.org>

numbers suggest that immigrant talent can be of the highest quality, to the point where immigrants account for between 25 and 30 percent of the Nobel Prizes in the three main recipient countries of Nobel Prizes in the world.

## 6.9 A Much More Even Distribution of International Talent Is Devoted to Culture and the Arts

It is interesting to note that when the Nobel Prize in Literature is included for the period 1980–2007, we find a larger variety of winners from different countries than for science and economics. These include recipients from South Africa, Colombia, Egypt, Santa Lucia, and Turkey, among others (Table 6.4).

Clearly, for the Nobel Prize in Literature, the correlation with developmental levels and high per-capita income countries is weaker, because several developing countries score well in the number of awards for literature. A possible explanation for this finding is that, unlike science in which research is often expensive and requires resources that are

Table 6.4. *The prize for talent: Nobel laureates in literature are more uniformly distributed across nations (1980–2007)*

Countries	Number of Prizes	Countries	Number of Prizes
United Kingdom (immigrants)	3	Ireland	1
United Kingdom	2	Italy	1
South Africa	2	Japan	1
Austria	1	Mexico	1
Colombia	1	Nigeria	1
Czechoslovakia	1	Poland	1
Egypt	1	Poland & USA	1
Espana	1	Portugal	1
France	1	Saint Lucia	1
France (immigrant)	1	Turkey	1
Germany	1	USA	1
Hungary	1	USA (immigrants)	1

Source: Author's own elaboration based on data available at <http://nobelprize.org>

more available in high-income countries, the pure creation of literature requires comparatively inexpensive resources. Moreover, as mentioned earlier, several writers from developing countries live and write in advanced countries.

### 6.10 Concluding Remarks about the Mobility of Talented Elites

This chapter has underscored the importance of the international mobility of elites in an increasingly globalized world and in which the demand for knowledge is on the rise. We have noted the complexity and heterogeneity of mobile elites, which include both merit-based talent in the productive, scientific, and artistic fields, and politically connected talent that gives them access to huge wealth (entrepreneurs) and former high-ranking government officials who reach critical positions in international organizations.

We also noted the remarkable concentration of individuals with a tertiary education in wealthy countries. In fact, according to the World Bank, nearly 90 percent of immigrants with a university education are

in high-income OECD countries. Their disproportionate concentration raises concern about the phenomenon of “brain drain,” particularly for such critical professions as physicians and health-sector personnel from poor countries who work in hospitals and clinics in high-income nations. In addition, the evidence shows a high concentration of talent and scientific work in OECD countries. Interestingly, between 25 and 30 percent of the Nobel Prizes in science and economics are received by immigrant scientists residing in the United States, the United Kingdom, and Germany. Moreover, patterns of talent “circulation” among countries also exist, and technological entrepreneurs from developing countries who have been successful in destination nations are also opening up branches of their companies and transferring technology and knowledge of new markets to their countries of origin.

## SEVEN

### A Fair and Orderly International Migration Process Requires a Global Social Contract

As we mentioned at the outset of the book, international migration evokes emotional responses from many corners. However, the international flow of people is a reality, and the current pace of immigration to OECD countries, perhaps slowing down because of the consequences of the financial crisis and economic slump of 2008–09, is unlikely to be abated in the medium run despite the restrictive immigration policies in place across advanced economies and the irregular nature of part of these flows. A critical need is to shape a *global social contract* that provides a framework for managing international migration. We have to move beyond defining immigration policies only as a *domestic* issue, formulated only on a national basis, and treating migration as an *international* issue, one in which the interests of all players are at stake – the migrants, the governments, employers associations, labor unions and civil society organizations in origin countries and destination nations. It is increasingly clear that immigration is an integral part of global economic relations that include the mobility of goods, money, capital, and people. But while the current globalization process is perhaps *obsessed with objects* (goods, capital, technology, and money), it casts aside those who should be at the center of a more *humane economic system* – people themselves. Moreover, migration policies must be treated not just as a legal issue of entry and exit of people; they must also endeavor to capture the broader developmental context of a world in which large income disparities and developmental gaps create powerful incentives

for migration toward wealthy countries. At the end of the day, it will be futile to try tackling the dynamics of international migration with restrictive policies in destination countries along with a blind-eye on irregular migration; what must also be addressed are the “fundamentals” of international migration as they pertain to development gaps and global and regional inequalities, and, as important, the *failure* of many *origin countries* in the developing world to deliver growth, jobs, decent wages, and economic opportunities to keep their citizens at home. Besides addressing the “economic fundamentals” of international migration, the “governance of migration” must also focus on practical issues surrounding the international mobility of people, such as visas, residence status, and citizenships along with the protection of human and labor rights of migrants.

The need to “internationalize” the topic of international migration has led to several initiatives led by the United Nations and member countries in recent years. This includes the Global Commission on International Migration, the Bern Initiative, the U.N. High-Level Dialogue on Migration and Development, and the Global Forum on Migration and Development. These initiatives have elaborated on the determinants and consequences of international migration, and seek to develop a common framework and agreed agenda on the topic in which the interests of the migrants and their families, as well as the broad interests and policy concerns of both sending and receiving countries, are taken into account.

What this book has strived for is an objective but realistic perspective about international migration issues that combines an analysis of its causes, effects, and dilemmas with supporting evidence from country experiences, with an historical record of and recent trends in migration. The hope is to apply this integrated examination toward future efforts to reach a consensus about the desirability of a more orderly, fairer, legally sanctioned, and socially conscious system of international migration, one in which the movement of people across national borders becomes an inherent, fundamental feature of a truly global and equitable economic order more than an appendix of the economic interests of recipient countries and of neoliberal globalization.



## 7.1 Recap of Some of the Main Themes

Among the topics examined in this book, we can highlight the following:

1. *Economic instability, nationalism, neoliberalism, and labor and capital mobility.* The past one and one-half centuries of the world's economic history have shown that capital and labor mobility have tended to follow roughly *similar dynamics*: rising sharply in the first wave of globalization in the late 19th and early 20th centuries, and increasing again in the late 20th and early 21st centuries despite the more restrictive policy and economic framework for labor mobility – but not for capital – that exists in this current wave of neoliberal globalization. The book also shows that international migration and economic integration throughout the world decline during periods of dominant economic and political nationalism, racial intolerance, and hostility toward internationalism, such as during the interwar years of the 20th century. At the country level, the regimes of capital and labor mobility vary over time, and rich countries that are currently net importers of both capital and people, such as the United States, were for a while net exporters of capital and net immigration countries. Moreover, we highlight that during periods of economic insecurity and instability – such as those experienced by several Latin American countries at different times in the past three to four decades, by Russia and other post-socialist countries after the end of communism in the 1990s, in Asia during the Asian crisis of 1997–98, in Iceland, Greece, the Baltic countries, Spain in 2008–09 – conditions are such that countries wind up exporting both people and capital and/or compelling return migration thereby retarding home-based economic development and reinforcing a spiral of stagnation and insecurity. In contrast, when stability, prosperity, and democracy flourish, these conditions will invite the immigration of people and the inflow of capital from abroad, supporting domestic growth and development in a virtuous cycle. Nowadays, the vision of a volatile and unstable south in contrast with a supposedly economically stable

and prosperous north is being challenged by the financial crisis and economic slowdown of 2008–09 in the United States and Europe that is also hitting the immigrant community through job losses, unemployment, lower incomes, lower remittances and financial and economic insecurity.

2. *The persistence of large global income and wage differentials.* In this book we have stressed that a major determinant of international migration (even enough to compel illegal immigration) consists of large and persistent per-capita income differentials and developmental gaps across countries, particularly between the south (developing countries) and the north (advanced economies). Empirical evidence from various studies shows that cross-country inequality has increased in the past century or so, contributing the surge of international migration from low- to moderate-wage countries to high-wage and wealthy countries. In spite of the fact that economic integration and globalization could be viewed, in theory, as a force toward the equalization of incomes and wages across countries, the reality is that this process has proven to be very elusive if it exists at all. Segmentation in global labor markets and job fragility, along with restrictions on the international mobility of people, are important factors that *prevent wage equalization* across nations and a more even distribution of the fruits of progress and technological change among different economies.
3. *Beyond economic fundamentals. Social Networks, Cosmopolitanism, and Politics* Although we highlight the central role of economic fundamentals, such as developmental gaps and wage differentials, in driving international migration flows, we also emphasize the importance of a host of other social, cultural and political factors, such as (a) family and social networks, and the availability of social services and their accessibility to migrants and their families; (b) the cost of migration; (c) the lure of cosmopolitan settings that offer greater academic/professional opportunities abroad for the middle and upper class from developing and post-Communist nations; (d) the “exit toward stability,” due to financial and political crises in origin countries as well as the incentives for return migration associated with financial crisis and economic contraction in main destination

countries; (e) human security in urban centers and availability of social services; and (f) democracy and the respect (or lack of it) for human rights and labor standards in recipient and origin countries. All of these are strong, pushing and pulling actors for migration. In turn, the emotional costs of leaving the home country, the monetary and opportunity costs of migration, the lack of rights for immigrants, discrimination in the labor markets of host countries, and the dearth of friendly legal immigration regimes in destination countries are factors that dampen the impetus for immigration.

4. *Economic logic, profits, the law and migrant rights.* In this book we have emphasized the complex nature of international migration in which conflicts emerge among its economics, legalities, social dimensions politics. It is apparent that by being a *de facto* and not *de jure* regime, illegal immigration avoids the bureaucracy of visas, work permits, and authorizations necessary to hire foreign workers. The result is a substantial reduction in transaction costs for employers, resulting in “efficiency” gains and profits for them. Illegal immigration thus performs the role of providing readily available workers in a sort of spot market. However, lower transaction costs and cheap labor are not all that is involved in international migration. It also includes a legal dimension: In a law-binding country, illegal immigration is a breach of the law, and the obligation of any government and judicial system is to enforce it. At the same time, not only are the laws of the destination country at stake, but so too are the civil and labor rights and social protection of the immigrant, which are often tied to citizenship and legal immigration status. Labor rights and residency protections for undocumented immigrants are particularly marginalized in destination countries. These concerns and pressures are more serious in countries with a large foreign population. *Defining migration frameworks that balance the economic gains of immigration with the laws of the receiving countries and the rights and social protection that immigrants deserve must be a priority in the years ahead.*
5. *Differences in international migration circuits between workers and elites.* International labor markets contain a substantial degree of differentiation and segmentation. Workers and poor immigrants

provide cheap labor in wealthy countries, but their large numbers exert pressure on social services, public finances, and housing in destination countries. Politicians and the media also often help create an atmosphere unfriendly to immigrants among urban residents and native workers who are open to messages of intolerance and protectionist labor policies. Consequently, restrictive immigration policies are oriented primarily toward this group. Conversely, professional elites – people with higher educational levels, specialized knowledge, and professional skills, such as physicians, information technology experts and senior academics that are in short supply in high-income countries – face a much more favorable migration regime. In the book, we highlighted the importance of big players such as multinational corporations, international banks, and international public institutions as vehicles for promoting the international mobility and circulation of executives, managers, technical experts, and professionals from developing and advanced countries. Many times these big organizations, intentional or not, foster brain-drain from the third-world countries. Politically connected individuals and elites are influential in international organizations, multinational corporations, and global banks. It is a common practice that senior members of government take up senior positions in international organizations or international corporations and banks after leaving government. Globalization is creating an entity of “internationally mobile power elites,” formed by the senior bureaucracy of domestic and international public sectors, along with the CEOs of multinational corporations, international investors, leading public intellectuals, the international media, and – last but not least – the heads of state elected democratically in their home countries. The global influence of these elites is still not very well understood.

6. *Restrictive immigration policies, labor market protectionism and tolerance for irregular migration.* Immigration (some illegal) has increased threefold in the past 40 years, despite policies that make it increasingly difficult for foreign unskilled labor to legally enter and work in rich countries. Many times these policies are sold as “protection” to domestic labor during periods of economic slack.

It is increasingly clear that the main pillars of current migration policies are under increasing challenges and scrutiny and must be revamped, even given the current realities of higher unemployment, reduced demand for immigrant workers, and slower growth in rich countries associated with the effects of the financial crisis of 2008–09. Current migration policies in rich countries are a mix of favorable regimes to skilled and elite migrants, and bureaucratic delays and restrictions to mass migration. These policies tend to show a reticence to accept a multilateral framework that regulates migration flows and maintains dual labor-market structures that are socially regressive but economically profitable for firms hiring migrant labor in host countries.

7. *Remittance markets and their mobilization for domestic development.*

In recent years, the volume of remittances sent back home by immigrants has increased substantially, surpassing official development assistance and foreign direct investment to developing countries. In several developing countries, remittance income is a dominant source of foreign exchange and resources that can be mobilized for domestic development. However, the fees charged by companies to immigrants to send remittances back home are often high (compared to the marginal cost of the transfers). This is a market dominated by a few international operators that make large profits from the monetary-transfer needs of poor immigrants. In origin countries, innovative and cost-effective ways to mobilize the resources sent by international migrants are necessary to enhance their impact on investment, support the accumulation of human capital, and create credit leverage for recipient families. However, a culture of dependency on remittances among nationals that penalizes savings, labor effort, and entrepreneurship in developing countries must be avoided.

## 7.2 Where Do We Go from Here?

The current international migration process involves a host of problems and manifest contradictions, but it also entertains evident economic opportunities. A critical challenge is to build an international economic

order that is fair to workers, professionals, and the lot of migrant communities. In the neoliberal era, this international economic order should be not only fair to capital, financiers, and traders but also to people that move across international borders looking for better opportunities for themselves and their families. Rich countries benefit from immigration but this is a process that creates internal political and cultural difficulties and brings external competition to local labor markets. The developing world also benefits from international migration as it releases the internal labor market from the pressures of those wanted to work but who cannot find good employment and decent wages at home; in addition, sending nations benefit from remittances and more generally of the international circulation of ideas, contacts, funds and knowledge that surrounds global migration. However, in spite of these economic and social benefits, migrants often are *invisible* to origin countries and often do not vote in recipient nations. They face a representation problem. Some of the challenges for a more humane and rational international migration regime for *both* sending and receiving nations are the following:

For recipient countries:

1. *Rich countries face obvious limits in using immigration to solve permanently their labor scarcity, skill shortages, and the demographic challenges of aging societies.* The economic and demographic challenges facing high-income recipient countries are well known: They are aging societies with low fertility rates in which economic growth requires an adequate supply of workers with certain skill levels that are often in short supply. These economies face shortages of human resources in the knowledge economy, in the health sector, in services, and in agriculture. The reality of slowly growing (or in some cases shrinking) labor forces impacts on the financial viability of social security systems based in paying-as-you-go pension systems. It is apparent that these aging societies require a greater proportion of young people who will contribute to the economy and help finance social security. If intelligently managed, immigration can make an important contribution to resolving these problems. This calls certainly for more liberal immigration policies in rich countries. However, it is important also to recognize the limits of

international migration as a “cure for all” of the growth and social security challenges faced by mature economies. These limits are evident: On the one hand, immigrants will eventually age and become inactive themselves. On the other hand, changing the demographics of advanced countries through permanent migration may require large flows of new migrants, which may be difficult to defend politically by the governments of recipient countries. A more permanent solution is to upgrade the internal education systems and generate the human resources in the quantity and quality needed for these economies to compete in global markets. Also, the savings capacities of these countries should be increased to deal with the aging, health, and social security challenges they face.

2. *Advanced countries must unshackle their cumbersome immigration regimes and rely less on irregular migration and labor market differentiation.* Currently, immigration policies in recipient countries are a cumbersome mix of restrictive migration procedures for unskilled labor, relatively liberal rules for educated migrants that fill skills gaps in information technology sectors and the health sector, along with a tolerance for illegal migration that provides a source of relatively cheap foreign labor in services and agriculture. This approach is bound to be unsustainable in the long run. Coherence in domestic labor-market policies calls for a more rational and comprehensive approach to international migration. In turn, some of the current immigration practices of rich nations are at odds with various commitments in supporting international development adhered to in these countries. An example of that is the immigration of health professionals from low- to middle-income countries. The “poaching” of medical doctors and nurses coming from third-world nations, who themselves are experiencing an acute scarcity of health professionals and various epidemics, is simply hard to defend on equity and moral grounds. Albeit this migration may benefit the health professionals that get good jobs in rich countries, their exits from poor nations have adverse consequences for the health systems in the home countries. In turn, the attraction of knowledge workers in first-world countries, albeit hard to contain and involving various global benefits concerning the development of science, new

technologies, and new products, unavoidably produces brain-drain effects from the viewpoint of source developing countries and leads to a global concentration of knowledge workers and professionals in rich economies that is *contested* by developing countries. In turn, irregular migration is also an eventual “time bomb,” as it implies that a segment of local labor markets in rich countries is based on foreign labor earning low wages and often working without labor contracts, under limited social benefits, fragile labor standards, and an irregular migratory status.

For sending countries:

3. *Source countries must adopt policies that promote home-based development and employment as a way to moderate current emigration pressures.* The economics of international migration underlined in this book suggests that people emigrate when they cannot find the jobs, wages, and opportunities to provide themselves and their families with economic progress and advancement at home. Under such conditions, they will seek economic opportunity abroad by emigrating. Therefore, the lack of *domestic* economic development and limited labor market opportunities for nationals are at the root of the pressures for emigration in the developing world. The key response then – although more simple to say than do – is for origin countries to create domestic and national conditions that will foster the creation of national wealth and ample jobs in a stable economic environment, in which the rights of people are respected. If origin countries can do so, developmental gaps will narrow, and the strong incentives for emigration will start fading away. The international commissions on migration and forum call for the formulation of international migration regimes that “maximize development.” This is undoubtedly an enlightened and valid goal. However, a methodological note is relevant at this point: We should not lose sight that the causality between migration and development is twofold: On the one hand, the level and composition of migration affects the level of economic development and welfare of both source and destination nations in several ways (see [Chapter 3](#)). This side of the causality (from migration to development) underlines the quest of



managing international migration for “maximizing development,” (albeit the distributive consequences between sending and recipient countries of this maximization are varied and many times tilted to high-income countries). On the other hand, as emphasized in this book, large development gaps prompt (cause) migration flows from low-development countries to high-development countries, so it is global under-development and international inequality that spur increased migration flows. Therefore “maximizing development” in the home country can be a recommendation for managing migration pressures according to this line of causality. The international responsibility in narrowing international development gaps is, however, to be shared between recipient and sending nations. Recipient countries must ensure that they keep open to international migration to foster wage and income convergence across countries. In turn, source nations must promote internal, home-based economic development to accelerate growth, reduce per-capita income gaps, and stem the pressures for massive emigration to rich countries.

4. *Basic responsibilities toward the migrant community by the sending countries: Voice and legal support.* Valid concerns and demands on rich countries’ policies toward international migrants should not obscure the responsibilities of *sending nations* with their population living and working abroad. Migrants need voice to make their demands to be listened and *legal support* from their home country governments to facilitate their life and work in foreign nations; this support also should enable them to maintain a normal relationship (e.g., travel, voting rights) with their home nation. This should start with some basic but important things, such as providing their migrants basic legal documents such as passports and identity cards by consulates abroad. These legal documents have a high value for immigrants. In countries with large, irregular immigrant communities, as is the case of Mexican migration to the United States, home country government support for the migrant community is important. In this respect, the initiative of the Mexican *cedula consular*, an identity card issued by the consulate, has facilitated Mexican immigrants in the United States to open bank accounts and, as recognizable identity cards, in getting jobs and access to certain social

benefits. Therefore, in light of the big migrant communities in Europe and other regions, legal support and protection for their expatriate community has to be a political priority for source countries around the world, and this priority has to be reflected in an adequate allocation of financial and human resources by governments to their consulates and other organizations that support migrant communities abroad. Besides passports and identity cards, migrants often face a host of other legal issues, such as regularizing visas and residence status, job contracts, and access to social benefits in destination (or source) countries. The reality is that most working immigrants have only limited legal knowledge and financial resources to deal effectively with these legal issues. Private immigration lawyers in host country often charge hefty fees to deal with immigration issues. Thus, securing access by the immigrant community to legal counseling, at a reasonable cost, is a need that has to be addressed. This legal counseling can be provided by NGOs, consulates, lawyers, and the social organizations of migrants.

5. *Source countries must create good governance, improve democracy, and support their diasporas.* This book has highlighted that, besides economic motives for people mobility, there are also political motives that lead to outmigration. Some of these political motives of migration are related to the quality of governance and democracy in source countries. In several countries, nationals want to leave because of internal armed conflict and political persecution, lack of respect for civil and political rights, as well as weak or absent labor standards. Authentic economic development is not only more output per head, but also having institutions and political systems that respect economic and social rights, private property, and personal integrity. The failure to respect these rights may occur in both sending and receiving countries. A new social contract on migration must take into account these considerations and respect immigrant's rights. Another area of increased importance is the support for the diaspora. These may be entrepreneurial diaspora, knowledge diaspora, or simply low-income communities living in other countries. These diaspora are increasingly seen, correctly, as important sources of knowledge, fresh capital and remittances, technology transfers, and sources of

external contacts and markets. Governments and civil society organizations can play an important role in establishing sustained links to these diaspora organizations and facilitate their contribution to the development of the home country.

6. *The need of a global social contract for international migration.* A critical message of this book is that the current international economic order lacks a multilateral (or even bilateral) framework for managing the international migration process. A durable *global social contract* must be cemented around a consensus on migration, and be supported by rules and institutions that regulate and set standards for the international mobility of people and elites. Part of the responsibility for the absence of a multilateral framework on migration rests not only in rich countries that benefit from an unregulated flow of foreign cheap labor and skilled professionals but also on developing-source countries. *Origin countries* that engage in a global social contract need to have coherent and articulated views of what they expect from international migration. Is migration a weapon for negotiation in trade talks and foreign investment regimes with rich countries, which are always afraid of the risk of massive immigration? How effectively developing countries genuinely care about and support the rights, social protection, and welfare of their citizens who reside and work in foreign countries? Should immigrants be considered as “assets” that send remittances, return migration, and the transfer of ideas, technology, and knowledge of foreign markets valued by origin countries? What is the scope for collective action in the field of international migration that has also a south-south dimension?

Advancing toward a social contract on international migration would require that *destination countries* be willing to obey the rules of international migration set in negotiated and consensual ways among origin and receiving countries and refrain from consistently benefitting from a shadow labor market of instantly available foreign labor.

Building institutions that give a concrete meaning to social contracts in general is not an easy matter, either at national or international levels. Historically, main international institutions were created after international

wars, internal conflicts, acute economic crises, and social disarray. The United Nations, for example, was created in 1944 after two world wars and previous decades of conflict, economic turbulence, nationalism, and intolerance. The Bretton Woods institutions, founded also in 1944, were created as an attempt to prompt stable monetary and development frameworks that could lead to economic growth, stability, and integration. It is unclear that international migration has the urgency, for some stakeholders, of these previous crises to steer new multilateral institutions on migration. However, the challenge is acting before the crisis explodes.

The practical design of a workable global social contract on migration will have to deal with various challenges, such as the articulation of voice of immigrants civil society and governments of sending and recipient countries, the aggregation of heterogeneous interests and preferences, the enforcement of rules and risk sharing mechanisms, and harmonization of the heterogeneity of interests and diversity of views around the subject of international migration. These difficulties entail the risk of a continuation of the current status quo (a de facto, suboptimal implicit social contract) that tolerates irregular migration and maintains highly differentiated migration regimes according to the economic status of the migrant. In fact, this implicit “social contract” can become more or less permanent as it is functional to a global economy that puts strong pressures on countries to cut labor costs and maintain cheap and flexible labor regimes. Reserve armies of cheap foreign labor are functional to neoliberal globalization but not to a fair global order. At the end, a clear leadership will be needed to articulate a social contract on international migration that respects the rights (and highlights the obligations) of the immigrants, while aligning the interests of recipient and sending countries. Will that be possible?

### **7.3 The Institutional Vacuum Should Be Filled – What an International Organization Can (and Can’t) Do**

A practical consequence of this new social contract would be the creation of an international organization, the focus of which would be *solely* on international migration. Otherwise the mandate will dilute with many

other priorities. Currently, the International Organization for Migration is probably the sole institution that is specialized only on migration. However, the United Nations, the OECD, the World Bank, and other organizations also undertake important work on international migration and provide various functions, such as the provision of information and statistics on international migration flows, the production and dissemination of knowledge in this field, and the creation of general awareness on the topic. However, given the multiplicity of mandates and concerns of these organizations they fail to provide simultaneously a politically strong leadership and technical specialization for the purpose of promoting a fair and well governed process of international migration. A global organization with a mandate on international migration should define rules and set standards and regulations that would preside over the international mobility of people, taking into account the interests of destination and origin countries, as well as the interests, rights, and safety of the migrants and their families. The organization would provide a forum for debates on migration issues, develop a multilateral mechanism for resolving disputes around migration issues, and develop or assist in financial mechanisms for sending remittances at a reasonable cost, possibly by creating a facility or its own bank for sending remittances. It should be a source and repository of knowledge and experience on migration and set immigration standards to be used as benchmarks for the design and actual implementation of immigration regimes in destination and origin countries. Of course, critical issues pertaining to the governance of this institution, country representation, and staffing and budgets would have to be defined. But beforehand, a consensus to fill the current institutional vacuum on migration would be highly beneficial for destination and origin countries, as well as for a fairer and more effective global economic order. The agenda of such an organization, if created, would face a number of issues, such as how to manage mass (largely less-skilled) migration; temporary, circular and return migration; the migration of women, the elderly and children; the complex issue of refugees and asylum-seekers; the treatment of elite and highly skilled migration; the rules on visas, naturalization, citizenship, and work permits; the civil and political rights of migrants; the portability of pensions and health insurance across countries tied to

migration; and others. For such an agenda to be effective, these issues will need to be prioritized.

As with any organization, an international institution with a strong mandate to deal with international migration must neither be overburdened with too many objectives (as already stressed) nor hampered by lack of budgets, limited tools, and insufficient human resources of highly professional expertise and commitment. It should also avoid being captured by ineffectual, self-serving bureaucracies. Ultimately, for a global organization on international migration to be effective and relevant, it must have the backing of member governments, particularly of rich (recipient) countries, but also an adequate system of representation and balance of developing countries that are traditional senders of migrants. Creating such an organization would be a tool, an instrument, and a vehicle for a more humane, equitable, and rational international migration process. At the end, the social contract and the concrete organization are artifacts that reflect values, consensus, resources, and mechanisms to solve conflicts and provide guidance. The hardest task is probably getting such a social consensus at national and international levels. One hopes that the intellectual effort entailed in studying international migration processes and policies from a global and historical perspective could make a small contribution in that direction.



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