Economic Effects of Migration

The economic effects of migration vary widely. Sending countries may experience both gains and losses in the short term but may stand to gain over the longer term. For receiving countries temporary programs help to address skills shortages but may decrease domestic wages and add to public welfare burden. "While every mouth brings a pair of hands, these hands sometimes make more than they eat and sometimes less," noted a writer in the *Financial Times*. Nevertheless, most commentators argue that the net effects of migration are generally positive. *The Economist* magazine, for example, claimed that loosening restrictions on labor migration "would be one of the fastest ways to boost global economic growth." The positive effects, they say, would be significantly greater than removal of any trade barriers.

For sending countries, the short-term economic benefit of emigration is found in remittances. According to the *Financial Times*, remittances worldwide are estimated at $60-70 billion per year, larger than development aid given to poor countries. For example, Somaliland, a breakaway region of conflict-devastated Somalia, receives an estimated $500m a year in money sent home from abroad, four times more than the income from the main export, livestock, according to a study by the researcher Ismail Ahmed reported in the *Financial Times*. In the case of Mexico, remittances have become the country's second most important source of foreign exchange, after oil. The income is so large that Mexicans working outside of the country were able to gain the right to vote after threatening to withhold remittances.

Meanwhile, for developed countries the positive gains from immigration are a result of the infusion of cheap and eager labor into the economy. In the United States and Canada migrant workers often fill low-wage jobs for which there is not enough local supply of labor, such as farm labor. Just as cheap imports of industrial goods benefit the American economy, so too does the import of cheap labor. Economists who support the notion of these positive gains claim that immigration has little impact on wages or job availability for domestic workers.

On the other hand, the Center for Immigration Studies (CIS) discounts the positive gains of immigration. One CIS study states that Mexican immigrants have a generally negative economic effect on the United States. It claims that Mexican immigrants have caused a 5 percent reduction in wages for the poorest 10 percent of the American workforce. At the same time, impoverished immigrant households use social services at twice the rate of native-born Americans (31 percent vs. 15 percent) the study says. Other studies, however, have found just the opposite. The British government , for example sponsored a study that found little evidence that immigrants drove down wages for native workers in the United Kingdom. It also found that immigrants contributed about 10 percent more to public finances than they took out.

At the same time, developing countries can suffer from "brain drain"-the loss of trained and educated individuals to emigration, an example of the possible negative effects of emigration for developing countries. For example, there are currently more African scientists and engineers working in the United States than there are in Africa, according to the International Organization for Migration (IOM), a worldwide agency that assists migrants. In Zambia, emigration has reduced the number of practicing doctors from 1,600 a few years ago, to a mere 400 today. The IOM estimates Africa's brain drain has cost nearly $9 billion in lost human capital and growth potential since 1997. Nearby in India, 100,000 skilled technology workers are expected to leave in the next three years. Since it costs India about $20,000 per student to educate these individuals,India essentially will subsidize the rest of the world for $2 billion worth of technology education.

The Case of the Philippine Nurses

A comprehensive example of migration's positive and negative economic effects on both sending and receiving countries is that of Philippine nurses who have migrated to the United States. With the developed world experiencing severe nursing shortages, U.S. hospitals have found a deep pool of experienced nurses in the Philippines. Offering higher salaries and better living standards, U.S. hospitals have had little trouble luring Philippine nurses from their home country. In fact, in many hospitals these immigrants make up the majority of the nursing staff. Philippine nurses have become such an integral part of the American health system that they have started their own national organization, the Philippine Nurses Association of America. The Philippine nurses example thus displays the entire phenomenon of migration and its economic consequences.

For example, as noted, receiving countries can gain from migration when there is a shortage in domestic labor supply. The United States and other industrialized countries started to experience nursing shortages in the 1970s, as more work opportunities began to open to women-making nursing, with its long hours and high stress, a less appealing option. But well-educated and English-speaking Philippine nurses provided the perfect replacement workforce. Without increasing wages, U.S. hospitals were able to fill necessary, but unwanted, jobs with Philippine immigrants.

At the same time, the migration of the nurses has positive economic effects in the Philippines. Once employed in the United States, the nurses can earn as much as 20 times what they were making back home. Part of this money they send home to support family and other dependents. As noted earlier, this is called a remittance. The remittances flowing back into the country from the migrant nurses help boost the Philippine economy and support the local population. Remittances have become so important for the Philippines that the country once had a program that required the nurses to remit a fixed proportion of their wages, although the program was eventually abandoned as being unenforceable.

On top of remittances, if and when the migrant nurses return to the Philippines they will bring with them greater amounts of training and experience contributing to social capital. The government has reacted to the potential benefits from emigration by sponsoring initiatives to ease the process. In 1982, for example, the government created a whole new department, the Philippine Overseas Employment Agency, responsible for optimizing the benefits of the country's overseas employment program. The Philippine National Bank has also reacted with programs that encourage remittance flows, and special remittance centers have been created in various parts of the United States.

Of course, there are negative effects as well. When the Philippine nurses come to America they leave behind nursing shortages in their home country. The Philippines is losing one of its greatest sources of social capital-educated workers. In other words, the Philippines is experiencing brain-drain. Moreover, the benefits of government expenditures on education are not coming to bear in the Philippines but rather in the United States. Furthermore, turnover at Philippine hospitals is so high that even operating rooms are staffed with novice nurses.

There is also some negative economic effect on the United States. On the one hand, the jobs they are taking would not necessarily have been filled by domestic laborers. On the other hand, American nurses see their salaries decrease as Philippine nurses arrive and are willing to work for lower wages. In order to obtain visas for the incoming Philippine nurses, U.S. hospitals must prove that they are unable to fill their existing vacancies with American nurses. Thus, it may appear that the jobs are going unfilled. However, it may be that the reason hospitals are unable to fill these vacancies with local help is because the wages they are offering are too low. Why are the wages so low? Because hospitals know they can find foreign nurses who are willing to accept them.

The Philippine nurses example thus shows the varying features of labor migration and the problems with analyzing its effects. The receiving country, the United States, gains because it fills a labor demand. The sending country, the Philippines, gains because migrants who are able to get better paying jobs in other countries are still able to help their home country by sending money back home. But, the Philippines loses social capital and wastes investment in its citizens when large-scale emigration occurs. Is it responsible policy for the United States to recruit nurses and for the government of the Philippines to encourage emigration when these educated laborers are needed to build up their home country? Is it fair to nurses in the United States, whose wages may be depressed by the competition?

Center for Strategic and International Studies (CSIS), www.globalization101.org/issue/migration/4.asp, (visited on 09/28/03).

"Economic Effects of Migration" **Name____________________________Pd.___**

Answer all of the questions in complete sentences.

<u>Knowledge</u>

1. What is the short-term economic benefit of emigration for sending countries?

2. What are the economic benefits of immigration for receiving countries?

<u>Comprehension</u>

3. Summarize the negative economic effects of immigration on the United States.

4. Compare the findings of the British government's study to that of the Center for Immigration Studies.

<u>Application</u>

5. Which examples illustrate the negative effects of the "brain drain" on developing countries?

6. If you were a government official in a developing country, what approach would you use to reverse the brain drain?

Analysis

7. How does the case of the Philippine nurses illustrate the positive economic effects of migration?

8. What are the negative economic effects illustrated by the case of the Philippine nurses?

Synthesis

9. What might be done to minimize the negative economic effects of migration while maintaining the positive effects?

Evaluation

10. Based on what you know, what would be the economic effect if all international migration were to suddenly cease?