DETERMINANTS OF INTERNATIONAL MIGRATION AND CONSEQUENCES FOR A LABOUR EXPORTING COUNTRY: SOME ASPECTS OF THEORIES AND EVIDENCES

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To
Baba and Maa

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CERTIFICATE

This is to certify that the dissertation entitled **DETERMINANTS OF INTERNATIONAL MIGRATION AND CONSEQUENCES FOR A LABOUR EXPORTING COUNTRY: SOME ASPECTS OF THEORIES AND EVIDENCES**, submitted by ***Arundhati Bose***, in partial fulfilment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY (M. Phil.)** of this University, is her original work and has not been submitted for the award of any other degree of this University or of any other University.

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CONTENTS

Chapter 1

Introduction

From the very inception of the human civilisation, population movements have been a regular phenomenon. There were adventurers, invaders and conquerors, who moved from place to place either in search of wealth, or to expand their territory, or both. There were the merchants, who sailed across the hemispheres. Also there were the slaves, who were forced to move out of their native lands, to distant places.

People began to move in mass across borders, motivated by economic factors only in the 19th century, with the abolition slavery and inception of the 'indentured' system of labour migration[1]. Under the 'indentured' system, labourers were neither captive like the slaves, nor completely free. Such migration of labour was, therefore, not truly 'voluntary'. Voluntary migration of labour began only in the concluding decades of the last century. Starting from 1870, until the beginning of the First World War, Europe observed a mass emigration of people, destined towards the US, Canada, Australia, New Zealand, South Africa and Latin America. During this period there were no restrictions on the mobility of labour. Only after the First World War, international boundaries and immigration laws began to restrict the free movement of labour. Such restrictions discouraged large-scale international migration of labour, which was further dampened by the 'Great Depression' of the 1930s.

The history of international labour migration, in the post-Second World War period, can be divided into two phases. During the first phase, which continued till late 1960s, people migrated from Europe to North America and Australia in search of fortune. At the same time there was a different stream of international migration, along which people migrated from the

[1] This description about the migratory flows around the world draws upon Nayyar, (1999).

developing world to the developed countries of North America and West Europe, both permanently and temporarily. The immigration into Europe fizzled out during the early years of 1970s. However, the US and Canada continued to be a prime destination for the emigrants from the developing countries, even in the second phase of the post-war history of international migration. From the second half of the 1970s, the oil exporting countries of the Middle East emerged as a prime destination for the low-skilled workers of South and Southeast Asia. Similar temporary streams of migration have continued in the form of seasonal import of Mexican labour in the US, and more recently in the form of import of temporary workers by labour-scarce countries in East Asia. East Asian countries, such as, Singapore, Hong Kong, Taiwan, Malaysia and Japan are emerging as important destinations for the migrants in recent years. The migration streams mentioned above were only the most prominent ones. Apart from these there were a large number of migration tributaries, operating in different parts of the globe.

Given this inter-temporally varied spectrum of origins and destinations of migrant population, international migration, as an economic phenomenon, has attracted several debates, regarding both its 'determinants' and 'consequences'.

The factors that determine international migration of labour can be classified into two broad categories – the macroeconomic forces that generate the migratory flows and the microeconomic factors that motivate an individual to decide to migrate. Apparently, there is a consensus among the scholars that voluntary migration of labour, across international borders, is largely a response to the economic inequalities between countries. However, such supply side analysis cannot completely explain the reality. The demand for labour in the migrant receiving countries imposes a binding constraint on international migration and, hence, is an important factor in determining the volume and direction of migration. But the macroeconomic forces solely cannot explin international labour migration. Given the same

inter-country inequality and the other macroeconomic conditions, some individuals emigrate from a region, whereas the others do not. So, it must be the case that the individual decisions play an important role in generating international labour migration. An individual agent maximises her payoff function, subject to a set of constraints. Given the payoff function and the set of constraints operating on it, for some agents the resulting decision is to migrate whereas for others it is not. The theories regarding individual decision to migrate hold responsible some or the other parameter in the agent's payoff function, for her decision to migrate.

Another debated issue in Development Economics is the 'consequences' of international migration on the economies of both the 'sending' country and on that of the 'receiving' country. There is an important debate concerning the consequences of immigration on the labour market of the receiving country, the social costs of immigration and its benefits. But, the more turbulent waves of the debate revolve around the consequences of emigration on the domestic economy of the sending country. The welfare theoretic analyses of emigration have given rise to several debates. But the impact of labour emigration on the sending country are much more varied and attracted several other debates. The more immediate effect of emigration is on the wages and employment level of the sending country. The value of remittances earned, its consequent impact on the national and the regional economy, and its contribution to the economic development of the domestic economy are other important issues. The issues regarding return migration have also attracted attention. Whether the emigrants acquire skill, working abroad, and help in skill formation, on return, is a hotly debated question. The process of re-absorption of the return migrants and the channelling of remittances to proper uses have thrown up important policy issues.

The objective of the first part of this dissertation is to revisit some of the theoretical expositions on the 'determinants' of international labour migration and to reconcile them with

the empirical findings. In the second part of this dissertation, our objective is to address the theoretical issues, connected to the consequences of emigration, and to relate them with the experiences of different labour sending countries, with a particular reference to the Indian experience. Given the varied nature of the consequences of emigration, we have chosen to focus our attention on two immediate consequences. Firstly, we would address the issue of remittance inflows and its use in the domestic economy. Secondly, we would discuss the impact of emigration on the domestic labour market.

However, given the limited scope, in time and space, of this dissertation, we cannot provide an exhaustive discourse regarding the 'determinants' and 'consequences' of international migration. From our discussion, so far, it is apparent that the focus of our discussion is on the 'international' migration of labour, and not on 'internal' migration. Taking into account the varied nature of international labour migration, we would concentrate only on the 'voluntary' migrations of labour, which are determined by 'economic' factors. We would ignore the migrations, such as, 'refugee' migration or the migrations motivated by the objective of 'family reunification', which are generally determined by political, sociological or psychological factors.[2] The 'determinants' and 'consequences' of 'voluntary' movement of labour, across 'international' boundaries, motivated by 'economic' factors, varies largely, in view of the wide spectrum of migration streams. Each of the migration streams possesses certain characteristics, which govern the 'determinants' and 'consequences' of the migratory flows. In this dissertation we would emphasise only on the migration streams that originate in the labour surplus countries and are destined towards the countries facing labour shortage.

For the theoretical discussion, regarding the 'determinants', we have chosen some literature that represent the different schools of thought. In order to reconcile the theoretical

[2] We have identified the different types of migrations according to the typology of international migration, provided by the United Nations (World Population Monitoring, 1993).

findings with the real world experiences, we depended mostly on the existing empirical literature on the issue. For the discussion on the 'consequences' of emigration, we have chosen some literature, which theoretically as well as empirically address the debated issues. No attempt was made to be exhaustive, while choosing the theoretical literature. Given our limited scope, the modality of our choice of literature was two fold. Firstly, we have made an attempt to address the important issues and secondly, we have tried to incorporate the most prominent points of view on the debated issues. We have chosen the empirical literature with the purpose of reconciling the theoretical issues with the real world experiences. For this reconciliation, we had to depend mostly on the existing empirical literature in view of inaccessibility of secondary data. Data have been especially inaccessible for some migration streams originating in India. However, for the remittance inflows into India we could supplement the findings of empirical literature with secondary data that was accessible.

This dissertation is separated into two parts. The first part, consisting of chapter two and chapter three, provides a discourse on the 'determinants' of international migration. Chapter four and chapter five constitute the part two, in which we would discuss the 'consequences' of labour emigration.

In chapter 2, we would discuss the macroeconomic determinants of international labour migration. The theoretical literature discussed in this chapter are broadly classified on basis of two approaches – the neoclassical approach and the neo-Marxist approach. A comparative study of these two approaches would help us to recognise the different macroeconomic factors that determine international labour migrations. A reconciliation of the theoretical literature with the empirical findings would invigorate our understanding. For that matter we would emphasise the Indian experience with labour migration.

In chapter 3, we would make an attempt to identify the parameters in an individual's payoff function that motivates her to decide to migrate internationally. In addition to neoclassical decision theories, we would discuss the clan of theories, commonly identified as the 'new economics' of labour migration. In the penultimate section we would provide a discourse on the decision to migrate in a liberalised trade regime. Finally, a discussion on the factors, which induce individuals to decide to migrate temporarily, would follow.

The discussion on the 'consequences' of emigration takes off in chapter 4, in which we would discuss the most immediate consequence – inflow of remittances. On basis of some theoretical and empirical literature and available data, we would discuss the issues regarding the factors determining the value of remittances, its uses in the domestic economy, its macroeconomic impact and some related policy issues.

Chapter 5 is devoted to discuss the impact of migration on the labour market of the labour exporting country. We would begin our discussion with some theoretical expositions connected with the implications of emigration on the agricultural and the non-agricultural labour markets. This distinction is made in view of the imperfect functioning of the agricultural labour market in the developing countries. The theoretical literature would be supplemented with experiences of different labour sending countries, with a particular reference to the Indian experience. We would wind up the discussion by addressing the issue of return migration and its impact on the domestic labour market.

Chapter 6 offers a summary and conclusion to the discussion.

Part One

Determinants of International Migration

Chapter 2

Macroeconomic Determinants of International Migration

Why do workers leave their home for a destination away from their country of origin? Why workers move to one particular country and not another, when they actually decide to migrate? What macroeconomic conditions attract labourers of different skill characters to different countries?

This chapter is an attempt to answer these questions. The answers are sought in s of different schools of thoughts, in sets of representative essays. The schools of thought discussed in the subsequent sections are the neoclassical school and the neo-Marxist school.

The theoretical explanations are characterised by a supply side story and a demand side story. The supply side explanations refer to the factors that create conditions for the individuals of a particular country, to consider migration as an option for mere livelihood, or for better living in future. The demand side explanations refer to the factors that create conditions for a country, to import labour from another country. The different schools of thought identify the two sides of the story in different ways. We will explore, how the neo-classical theorists and the neo-Marxists identify the demand and the supply sides in order to explain the phenomenon of international migration, in section 2.1

The theoretical discussion, explaining the phenomenon of international migration is followed by a very brief description of the channels of international migration since 19th century to date. Section 2.2 and section 2.3 reconcile theory and experience of international migration for the world in general and for India in particular. Section 2.2 is a brief description of the channels, characteristics and compositions of the worldwide international migration

flows and section 2.3 is the Indian counterpart of section 2.2 for the relevant period. This final section discusses the in detail the supply and demand factors operating behind the migratory flows originating in India.

2.1 A Survey of Theoretical Literature on the Macroeconomic Determinants of International Migration:

2.1.a *The Neo-Classical Approach*:

If we abstract from involuntary population movements caused by say, warfare or natural disasters, there is a consensus among scholars that, people move in response to perceived inequalities in economic opportunities between two places. The neoclassical school adheres to the consensus that, inequalities in spatial opportunities cause migration. In this section we will present three models of the neoclassical school, namely the Lewis model (1954), the Ranis & Fei model (1961) and the Todaro model of migration (1969).

The earliest description of the process of migration in a neo-classical framework can be found in Lewis model (1954), which was later modified, formalised and extended by John Fei and Gustav Ranis (1961). Even though both the Lewis model and the Ranis-Fei model are essentially two sector models of development in a subsistence economy, and the migration process described there are internal rural to urban migration, both can be applied to migration across borders; to which extent they can be applied to international migration, will be discussed later in this section.

Now, let us present what Lewis and Ranis-Fei has to say about the factors that determine migration flows.

According to Lewis (1954), migration occurs from the subsistence sector, to the 'capitalist' sector primarily because of the wage gap of around 30% that exists between the

two sectors. The urban wage is higher due to the upward pressure on wages created by the trade unions and due to higher standard of living, prevailing in the urban economy. In response to this wage differential, as in the Lewis model, the surplus labourers move out from the subsistence sector. Surplus labourers are those labourers whose marginal productivity is zero. Therefore their departure would not reduce the output at the origin. In the capitalist sector, the migrant labour works for a wage that is identical with their marginal product and thereby generates a surplus. This surplus being reinvested creates further job opportunities. Therefore, migration continues until a point is reached where the marginal product of labour in the subsistence sector starts rising above zero. Such a point, where surplus labour ceases to exist is called the 'turning point' by Lewis. Ranis and Fei (1961) argues that migration will continue, in such a situation, not only until labour productivity in subsistence sector becomes positive, but until the workers in the subsistence sector starts earning the same wage as urban workers. As this point is reached, when workers in both the sectors earn same wage, if the capitalist sector has to draw any more workers from the subsistence sector, wages in the capitalist sector has to be increased. Such a point from where the capitalist sector has to start competing with the subsistence sector for workers is termed as the 'commercialisation point' by Ranis and Fei.

Therefore, migration from a subsistence economy occurs, according to Lewis, in response to a wage differential between the origin and the destination as long as there exists surplus labour at the origin. According to Ranis and Fei, migration would occur in response to a wage differential, even in absence of surplus labour at the origin.

Lewis and Ranis & Fei somehow explain labour migration solely from the supply side and do not consider the presence of any demand constraint that can restrict the migration flows. It is implicitly assumed that there is no demand constraint for migrant labourers in the capitalist sector. But this is only possible when the rate of employment creation is at least

equal to the rate of labour transfer, then only the migrants succeed to get employed in the modern sector. This happens under certain conditions. Firstly, the capital accumulated in the urban sector must be reinvested in the local economy, i.e. capital flight does not occur from the urban sector. Secondly, the reinvestment of capital must take place at a pace, which is sufficient to meet the pace of labour transfer. Thirdly, investment should not be labour saving so that enough jobs are created to employ the migrant and resident population.

It should also be noted that the wage in the capitalist sector is higher, not due to any presence of excess demand for migrant labourers there but due to structural reasons like upward pressure on wages created by the trade unions and higher standard of living, prevailing in the urban economy.

Todaro (1969) postulates that migration occurs in response to increased expected income at the destination rather than actual wage differential. Let us elaborate.

Suppose, π be the chance of getting a job in the urban sector. π is defined as the following:

$$\pi = \frac{\gamma.N}{S-N} = \frac{\gamma}{\frac{S-N}{N}}$$

where, γ is the net rate of urban new job creation

N is the level of urban employment

S is the total urban labour force.

$\therefore$ π here is not a statistical probability; it is a ratio of new job openings relative to the number of job aspirants at a point of time. Now, suppose r is the rural wage and w is the urban wage. An individual's expected wage differential is, therefore, given by,

$$d = w\pi - r$$

Labour supply to urban areas is positively related to this expected wage differential d.

Todaro, unlike Lewis, takes both the demand side and supply side into consideration, in order to explain the phenomenon of migration. The demand side is incorporated through the consideration of 'probability' of getting a job at the destination. In the absence of any restrictive immigration laws, an individual's decision to migrate depends on the probability of getting a job at the destination, which is a function of 'the rate of urban job creation' and 'the excess of urban labour force over urban employment'. The rate of migration is positively related to the 'expected wage differential', which, in turn, is positively related to the rate of urban job creation, γ, and negatively related the excess of urban labour force, S, over urban employment, N. On one hand, if the urban labour force is too large, giving a large excess supply ($S-N$), then the rate of migration is automatically dampened. On the other hand, if the urban job creation is high, giving rise to the demand for labour, the rate of migration is stimulated. Restrictive immigration laws, which are a manifestation of low demand at the destination, tend to dampen the individual's incentive for migration. Even if an individual attempts to migrate internationally despite immigration restrictions, probability of employment at the destination or the expected payoffs are adversely affected by restrictive immigration laws, like border enforcement or employer penalties for employing illegal migrants. Todaro model or its extensions (Todaro and Maruzko 1987), thus, do not claim that successful migration at the international level is an act of choice. The supply side is incorporated into the Todaro model through the term r (i.e. rural wage). Lower the wage rate in rural areas or at the origin, greater is the push for migration.

There are some limitations to the Todaro model.

Firstly it should be pointed out that Todaro model interprets a macro phenomenon through aggregation of micro behaviour. Such an explanation requires the assumption that a person independently decides whether or not to migrate. If there is any externality effect of an individual's decision to migrate, on another individual's payoff (expected earnings in this

case) such interpretation of macro phenomenon through aggregation of micro behaviour is not appropriate.

Secondly, the Todaro model explains an ex-post situation based on an ex-ante calculation of probabilities. This requires the assumption that a person's choice is independent of his precise context and location, i.e., whether he is a potential migrant in the rural areas or an actual migrant but unemployed in the urban areas, his choice of residence remains unaffected. If a person is in the city without a job, he cannot still go on making decisions as if the choice was between being in the village and migrating to the city, with say x percent chance of a job. Given that now he is unemployed, the total ex-post situation must depend upon what he decides to do with the options now available to him. In such a case the urban unemployed would migrate back to the rural areas. Todaro model cannot explain why a migrant who has not been able to secure a job would stay on in the urban areas or the destination.

Whatever the case may be, expected or absolute, neoclassical theorists hold the wage gap between source and destination, responsible for migration from the subsistence to the modern capitalist sector.

The underlying assumptions of the neoclassical approach are as follows:

1. International migration of workers is caused by differences in wage rates between countries. Migration cease to occur once this wage differential is eliminated.
2. Labour markets are the primary mechanisms by which international flows of labour are induced.

The difference in income and employment opportunities cannot be ignored as factors influencing the migratory process. But these factors alone does not seem to govern the

process in any conventional sense of the term. Some facts about the migratory flows across the world would make this point clear.

Firstly, the source countries are not always the countries with low income, which would provide the widest of income differentials. On the other hand, not all countries with extensive poverty are typically emigration countries. Over population and economic stagnation, which are almost always the reasons behind poverty, are prevalent in most third world countries. However, all of these countries do not have significant history of emigration.

Secondly, in the labour surplus countries, migration seems to be confined to only those who can get a job. A worker migrates from a LDC to a DC, only when he is considerably sure of getting a job in the destination country. Otherwise the cost of migration would be too high if the worker has to spend time unemployed, looking for a job. Unemployment among the migrants, in the receiving country, is low. The immigration laws of the labour importing countries allow immigration, only to the extent that there is shortage of labour supply within the country, even if there is a positive wage differential to induce migration. Often private agents or the governments of labour-shortage countries initiate labour contracts with countries, where cheap labour is available and migrants get a job before migrating. Therefore these neo-classical theorisation, which are essentially models of internal migration, can be applied to migration across borders, but only within a common market, i.e. only if nation states do not exercise control over entry and exit of people.

The conventional or neo-classical theory differentiates between jobs in terms of income and between workers in terms of their income generating capacities or marginal products. Other job attributes or worker traits are suppressed in the neoclassical analysis. The labour market is treated in the same way as the market for any other commodity. The migratory flows could be looked upon, alternatively, by recognising (as in Piore, 1979) that

people are, instead, rooted in a social context, in ways that other commodities are not. It is not that income differentials play no role in population movements. Rather, the critical forces governing the migration process are the social ones, which make labourers different from commodities.

To summarise, in these neo-classical theories, it is explicit that occurs in response to real or expected wage differentials and it is implicit that migration persists, till there is a wage gap between the source and destination. These models are applicable for internal migration or migration within a common market, where migratory flows are not hindered by restrictive immigration control system.

2.1.b *The Neo-Marxist Approach:*

The neo-Marxist theories of migration are based on the conflict model of the society, which stems from the Marxian analysis of the emergence of capitalism out of the feudal society and the development of capitalism in its later stages. Marxist writings essentially situate themselves in historical perspective in analysing migration or any other phenomenon. We will try to take the general elements out of the historical experiences and formalise the essential arguments of the neo-Marxian school in explaining labour migration across borders. We will present the writings by Nikolinakos (1975), Piore (1979)[1] Sassen (1988), Friedman (1986) and Beaverstock & Smith (1996) in this section. Nikolinakos (1975) incorporates the early stage of development of capitalism, namely the fall out of colonial rule, the immediate post Second World War reconstruction and the period of prosperity following it, in the industrialised countries in analysing the reasons for international migration. Piore's (1979)

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[1] Piore cannot be classified exclusively as a neo-Marxist, but his discussion about the 'dual labour market' is similar to the neo-Marxists in many ways. For a detailed discussion about the similarities and dissimilarities between Marxist writings and Piore's, see Piore (1979), chapter 1. It should be noted that the dual labour market theory is complementary to the discussion of the neo-Marxist approach.

study is focussed on the labour market structure of industrialised counties that cause a demand for migrant labour. Sassen (1988), Friedman (1986) and Beaverstock & Smith (1996) focuses on the later stage of development of capitalism, namely the stage of decentralisation of monopoly capital, and how that gave rise to migratory flows across borders.

At this point it would be useful to distinguish the neo-Marxian approach from the neo-classical approach. Unlike the neoclassicals, the neo-Marxian interpretation recognises an essential interdependence between the more economically advanced countries and the less advanced ones, where the later is maintained in a state of 'dependency' on the former. Another difference between the neoclassicals and the neo-Marxists, in this regard, is that the former perceives the system as competitive and assumes equality of opportunity and similarity of jobs for the migrants and the natives, which the later does not.

Nikolinakos (1975), narrating the experience of advanced industrialised nations of Western Europe in the 1950s and 1960s, analyses how the dependency between economically advanced and backward countries grows with the development of capitalism and influences migration from the later to the former. The post-war reconstruction was over by mid-1950s and the 1960s saw a growth process marked by technical progress and increased foreign trade in these industrialised nations. This, combined with wage rise and reduction of customs duties, helped the markets to expand. This resulted in considerable accumulation of capital in the advanced industrialised countries of Western Europe. This accumulation, as a natural consequence, was followed by increased demand for qualified workers. The structure of the labour market was altered through a vertical upward move of the native workers to the highly qualified, better paid and socially valued positions. The resulting gap at the lower end of the labour market was filled by import of foreign workers, who migrated temporarily from countries of South and East Europe and North Africa, namely, Turkey, Greece, Yugoslavia, Italy, Spain, Portugal, Algeria, Tunisia and Morocco. This system of temporary migration of

workers into West Europe is known as 'guest worker system' and the migration process filling the gap at the lower end of the segregated labour market is termed as the 'dual labour market theory'. This 'dual labour market theory' is analytically developed and discussed in Piore (1979)

In an analytical endeavour, very similar to Marxian economics, Piore (1979) discussed the migration from the LDCs to the 'secondary market' (which we have just described as the 'lower end of the labour market') of the 'dual labour market' of DCs. Piore, in his exposition, includes the outward movement of black workers from the southern states of America, the migration of East European peasants to the U.S. in the late 19th and early 20th century, 'guest worker system' in contemporary Europe and undocumented flows of workers from Mexico and the Caribbean's to the industrial cities of the U.S. These migratory flows are typically long distance ones from underdeveloped rural areas, induced by the industrial society in order to fill the a particular set of needs. The migrants appear to have a common set of attributes, which enabled them to meet these needs. International migratory flows in West Europe in the pre-World War period and the inter-war period, internal migratory movements in the early industrial history of Western European nations and in a number of newly developed countries today also seem to meet this pattern. The 'process of industrialisation' taking place in the country of destination and the consequent labour shortage causing a demand for migrant labour is common to all the above migratory flows. Migrations that do not fit in this analysis, as Piore states explicitly, are short distance movements within a single country and the migratory movements of agricultural workers, temporary or permanent. Mobility of frontier workers in the U.S. and Mexico or of European nations, or Jewish migration to the U.S. or movement of Cuban refugees and such other flows that are caused by factors originating outside the industrial country are beyond the scope of Piore's discussion.

Though the writings of Nikolinakos (1975) and Piore (1979) are specific to experiences of particular countries, some general conjectures can be made, from them, about the factors determining international migratory flows. From the discussion so far, the demand-pull seems to be the most important factor behind these migratory flows. The process of capital accumulation in the industrialised nations, (or what is called the 'centres' by the neo-Marxists), from time to time, has generated demand for labour at different levels of the labour market hierarchy. The domestic labour force has succeeded in capturing the better-paid and socially valued positions of the segregated labour market. This gap resulted in an excess demand for low-paid-and-low-status jobs at the lower end of the labour market hierarchy. Migrant labourers from the 'periphery' have been used as the 'reserve army' to fulfil this excess demand. These migratory flows are mostly temporary in nature, resulting in 'return' flows as soon as the boom period is over.

Piore, as a proponent of demand-pull, as a cause of migration, identifies four fundamental characteristics of the advanced industrial societies and their economies, which are responsible for the *built-in demand* for immigrant labour in these countries. These characteristics are structural inflation, motivational problems, economic dualism and demography of labour supply.

Structural inflation

Wages not only reflect conditions of supply and demand; they also confer status and prestige, social qualities and inhere to the respective jobs. As a result, wages offered by employers are not entirely free to respond to the changes in the supply of workers. A variety of informal social expectations and formal institutional mechanisms (such as union contracts, civil service rules, bureaucratic regulations, company job classifications etc.) ensure that wages correspond to the hierarchies of prestige and status, that people perceive and expect.

If employers seek to attract workers, for unskilled jobs at the bottom of an occupational hierarchy, they cannot simply raise wages. Raising wages at the bottom of the hierarchy would upset socially defined relationships between status and remuneration. There will be strong pressures to raise wages by corresponding amounts at other levels of the hierarchy. Thus the cost to employers of raising wages to attract lower level workers is typically more than the cost of these workers' wages alone. Wages must be increased through out the job hierarchy in order to keep them in line with social expectations. This problem is known as structural inflation.

The concept of wage rigidity as propagated by Poire should not be confused with the concept of wage rigidity as propagated by Keynes. Keynes' treatment held that money wages are downwardly rigid or respond slowly and inadequately to unemployment due to influence of the minimum wage laws and efforts of the trade unions; but they are upwardly flexible and respond adequately to any increase in effective demand. In Piore's analysis the wages are subject to structural inflation due to the social hierarchy operating in the labour market. Attracting native workers by raising entry wages, during times of labour scarcity, is thus expensive and disruptive, providing employers a strong incentive to seek easier and cheaper solution such as employing migrant workers, who will accept low wages. Therefore employers deliberately keep wages rigid at the lower end of the market by allowing immigration. It can be said that in contrast with Keynes', Piore's treatment holds wages as upwardly rigid due to deliberate effort of employers by employing immigrant labours.

Motivational problems

Occupational hierarchies are also critical for the motivation of workers, since people work not only for income, but also for the accumulation and maintenance of social status. Acute motivational problems arise at the bottom of the job hierarchy, because there is no status to be maintained and there are few avenues for upward mobility.

Since there always has to be a bottom of any hierarchy, motivational problems are inescapable wherever there is socially segregated labour market. What employers need are workers who view bottom level jobs simply as a means of earning money, with no implications for status and prestige.

For a variety of reasons migrants satisfy these needs, at least at the beginning of their migratory careers. Migrants begin as target earners, seeking to earn money for a specific goal that will improve their status and well being at home. Moreover, the difference in living standards between developed and developing countries means that even a low wage abroad appear to be generous by the standard of the home community. Even though a migrant may realise that a foreign job is of low status abroad, he does not view herself as a part of the receiving society. Rather she views herself as a member of her home community, within which, foreign labour and hard-currency remittances carry considerable honour and prestige.

Economic dualism

Bifurcated labour markets characterise advanced industrial economies because of their inherent duality between labour and capital. Capital is a fixed factor of production, which cannot be easily laid off, even in times of lower demand because the owners of capital have to bear the cost of its unemployment. Labour, on the other hand, is a variable factor of production that can be released whenever demand falls. Workers are, therefore, forced to bear the burden of being unemployed. So, whenever possible, capitalists seek out the stable, permanent portion of the demand and reserve it for employment of equipment, whereas the variable portion of the demand is met by adding labour. Thus capital intensive methods are used to meet the basic demand and labour intensive methods are kept for the seasonal fluctuating component of demand. This dualism creates distinction among workers, leading to bifurcation of the labour force. Piore defines the former part of the labour market as 'primary job sector' and the later as the 'secondary job sector'.

Workers in the 'primary sector', are naturally more skilled and get stable jobs. Employers have to invest in these workers by providing specialised training and education. Their jobs are complicated and require considerable knowledge and experience, leading to accumulation of firm specific human capital. These workers tend to be unionised or highly professional, and can sign contracts that requires employers to a substantial share of the costs of their idleness, in form of reverence payments or unemployment benefits. Because of these costs and continuing obligations of employer, workers in the capital-intensive sector become more similar to capital.

In the 'secondary sector', however, workers hold unstable, unskilled jobs. They can be laid-off at any time with little or no cost to the employer. Thus, during the recessions, the first thing the employers do is, cut these unskilled workers from the pay roll. As a result the workers are forced to bear the cost of their unemployment. They remain a variable factor of production and hence expendable.

Thus the inherent dualism between labour and capital extends to the labour market in form of a segmented structure. Low wages, unstable conditions, and the lack of prospect of moving up, in the secondary sector, make it difficult to attract native workers, who are instead easily absorbed in the capital-intensive primary sector, where the wages are high, jobs are secure and occupational improvement is possible. Immigrants, therefore, meet the labour requirements of the more vulnerable secondary sector.

The demography of labour supply

The three characteristics, discussed above, create a permanent demand for labour at the bottom of the job market hierarchy. In the past, this demand was met by two sets of people within the social strata, with characteristics conducive to these sorts of jobs: women and children. Historically, women are not the primary bread earners. They were willing to put up with low wages and instability, because they viewed the job as transient and the earnings

as supplement to family income. Likewise, teenagers historically moved in and out of the labour force in order to earn extra money, to gain experience or to try out different occupational roles. They did not view dead-end jobs, with no scope of upward mobility, as problematic because they expected to get better job in the future. Their social identities were derived from their parents and families, and not their jobs.

In advanced industrialised countries, however, these sources of unskilled labour have been exhausted up over time. Three fundamental socio-demographic changes are responsible for this. Firstly, the rise in female participation in the labour force has transformed women's work into a career, persuade for social status as well as income. Secondly, the rise in divorce rates has transformed women's work into a source of primary income support. Thirdly, fall in birth rates and extensions of formal education have resulted in very small section of teenagers entering the labour force. The imbalance between structural demand for 'entry level workers' and the limited domestic supply of such workers has increased the underlying long run demand for migrants.

Self interests and rational decision making for migration, as a response to higher wages, as predicted by the neoclassical models, is in direct conflict with dual labour market theory. Unlike the neoclassical ones, it points to the importance of demand in generating flows of international migration. The negative attributes attached to the low wage jobs in the industrial countries may open up employment opportunities for foreign workers and thereby may raise expected earnings. This higher expected earnings, no doubt, acts as an incentive for potential migrants. But, since the demand for immigrant workers in developed countries grow out of structural needs of the economy, it is expressed in recruitment practices rather than in wage offers. Low wages in the immigration countries do not rise in the face of excess demand for labour; they are held down by social and institutional mechanism and are not free to

respond to supply and demand. So it is the recruitment agencies, which are more at work, rather than the incentive of wage differentials, in filling the demand.

In later years, industrial capitalism has gone through a transformation marked by a decentralised form of production. This has generated a significantly expanded role of major urban centres and has caused a new stream of migration towards these urban centres. The urban centres, predominantly, but not all, are situated in the developed countries. In the spatial division of labour under world capitalism, these cities, "carry out headquarter functions, or serve as financial centres, or have as their main function, the articulation of regional and national economies with the global system."[2] According to the 'World City Hypothesis', London, Paris, Rotterdam, Frankfurt, Zurich, New York, Chicago, Los Angeles, Tokyo, Sao Paolo and Singapore are regarded as 'primary' World Cities, which perform one or all of the above functions.

The driving force of World City growth is found in a small number of rapidly increasing activities. The most important of these activities are those of corporate headquarters, international finance, global transport and communication, hotel and tourism services, and business services such as advertising, accounting, insurance and legal services. These services are generally called 'advanced' services. In terms of occupation, these cities are characterised by a dichotomised labour force consisting of a high percentage of professionals, specialised in control functions, on one hand, and on the other hand, a vast army of low-skilled workers, engaged in manufacturing, personal services, and hotel, tourist and entertainment industries.

The World Cities are major sites for the concentration and accumulation of international capital as well as for concentration of interregional and international migrant

[2] John Friedman, 1986.

labour. The concentration and servicing and management functions, in these cities, have contributed to conditions for the demand for, and absorption of the immigrant influx.

Sassen (1988) is particularly interested in examining the generation of demand for low wage services in major growth sectors (advanced services and downgraded manufacturing sectors), which has acted as a pull factor for low-skilled immigrant labour in these World cities. Sassen reveals (with a case study of New York and Los Angeles) the kinds of trends, which point to an economic base, capable of generating demand for expanded workforce. The trends though put forward as particular cases of New York and Los Angeles can be viewed, in general, as representatives of Global Cities. The trends can be summarised as follows:

1. Expansion of advanced services, (e.g. since 1976, in the case of New York City).
2. Significant increases in foreign direct investments.
3. Massive growth in high-tech industries.

These trends have generated demand for low-wage workers as an infrastructural requirement. The difficult working conditions associated with some of the advanced services, for example night and weekend shifts associated with hotel services are often undesirable by the domestic workers. This may have left a vacuum to be filled by the immigrant workers. There seems to be a presence of dual and segregated labour market, in these cities. Expansion of economic activities creates demand for workers at different levels of the labour market hierarchy. The jobs at the lower end of the hierarchy being undesirable by the domestic or local workers create a demand for immigrant labourers.

As we have mentioned, the occupational structure in these cities contains a pool of professional skilled workers, Beaverstock and Smith (1996) is of the opinion that, the demand for these workers were created within the trans-national corporate headquarters. The new international division of labour has pushed the manufacturing segment of global capitalist

production process to the less developed areas or what is called the 'peripheries', and the corporate headquarters to the World cities, (or what they term the Global Cities), which are also the international financial centres. The expansion of 'control activities' at the headquarters, situated in the Global Cities, has created a demand for skilled professional transients. Business houses prefer to employ professionals who are used to work with their own company, rather than hire one from the local market.[3] This results for immigration of professional transients to the Global Cities, through the internal labour market of the business houses, from another branch situated elsewhere. Such migrations are termed as 'intra-company transfers'. Within this system, the concept of career may act through an incentive for promotion, or a new post at the same grade, or a geographical preference for organisational sites in the same or in a different country.[4]

Our discussion in this section so far has presented the *demand* side explanations of international migration, as in the s of neo-Marxist school. We will furnish the essential elements of the demand side explanations here. Accumulation of capital and growth of economic activities at the 'centres' seem to be the central force generating the demand for migratory flows towards these 'centres' at different points of time in the history of capitalism. Concentration of capital by way of accumulation through colonial rule resulted in a growth of industrial activity in the Western industrialised countries or what is called 'centres' by the neo-Marxists. In later years, with the development of capitalism towards decentralisation of monopoly capital, certain cities have emerged as 'centres' with concentration of capital and economic activities at the headquarters of the multinationals situated in these cities. Especially during the time of expansion of economic activity, the existing labour force at the centres have not been able to match the demand for labour to support this growth of industrial

[3] Salt and Findlay, 1988
[4] *Ibid.*

activities This has given rise to labour shortages in these centres, from time to time. The shortages have been especially felt at the bottom of the labour market, as jobs at this end of the labour market have not been found acceptable by the local workers at the centres. Migration from labour surplus countries or the 'peripheries' has been deliberately allowed to meet this shortage, often through contracting agents. Labour shortage observed during the expansion of economic activities have been short-lived and thus migration allowed to fill such gaps have been temporary in nature. The neo-Marxian school explains the migratory flows of skilled labours or professionals towards the 'centres' in terms of the internal labour markets of the multinational corporation. The demand for these workers generate at the 'centre' as the headquarters prefer professionals who are used to the ways of working in their own company. Therefore, the process of capital accumulation and time to time expansion of economic activities resulting in shortage of labour in industrialised countries is the source of demand for immigrant labour in these societies.

This was so far the demand side explanation for international migration of the neo-Marxian school. A discussion about the determinants of migration must also take into account the supply side of the story. The neo-Marxian looks into some common characteristics of the source countries of the 'periphery' that reveal the *supply* pushes for emigration in labour exporting countries.

In analysing the sources of migration to the industrialised countries of West Europe, Nikolinakos (1975) writes, "these (source) countries are ruled, almost without exception, by dictatorial governments... Without these governments, the type of development process described here, the ensuing class structure, as well as the expansionist interest of Western European capitalism would have been impossible."

The development process described in his essay is that of the 'periphery' countries of South and Southeast Europe and North Africa, who "were formally or informally dependent on the colonial powers at some point of time in their history. The structure of their economies and their economic development were determined by their imperialist dependence and their class structure was marked by this dependent relationship. Until the Second World War, or approximately fifteen years afterwards, these countries were assigned to the production of agricultural products and raw materials. Their economic development was not autonomous; it served the interest of foreign monopoly capital, and metropolis. They were able, to a limited extent, to build up a primitive manufacturing industry, which produced consumer goods of low quality for their internal market... In the post-war period... a measure of industrialisation was introduced, which nevertheless continued to remain dependent on foreign capital, on the technologies of the metropolis, on the division of labour of the metropolis."[5]

This development process and the dictatorial rule resulted in a low accumulation of capital and hence an outflow of the unemployed people, who finally served the low skilled labour requirements in the metropolis.

It is not only the general development of capitalism, through colonial expansion, that has created the push for international migration. The *generalisation of market relations*, on one hand, and the *development of decentralised forms of production structure*, on the other, according to Sassen (1988), had a disruptive effect on the traditional work structure and thereby created an easy mobilisation of migrant labour, in the later stages of capitalist development. *Feminisation of workforce* is also a contributory factor to push emigration.

Generalisation of market relations has taken place through the expansion of export of agricultural and manufacturing goods. Orientation of third world agriculture and related

[5] Nikolinakos, 1975.

activities towards export has commercialised agriculture in different stages of the development of capitalism. This has transformed the subsistence farmers to landless wage-labourers or has forced them to emigrate. This migration may be, internal, to the cities of the same country or international, in search of rural or urban jobs, in neighbouring countries.

There has been *decentralisation of capitalist production structure*, in the form of foreign direct investment (FDI) in the last few decades. This new division of labour has, by disrupting the traditional work structure, has created conditions for mobilising new segments of the population into regional migration, which eventually may overflow into long distance and international migration.

Moreover, there has been *feminisation of workforce* around the world over the past few decades. This had an additional disruptive effect on the traditional employment structure, notably, in the household production, for internal consumption and for the local markets. The 'feminisation of the proletariat' has been found to create male unemployment, and in several cases, to male emigration.

The above discussion of the experiences of various labour sending countries reveal the supply side explanation of international migration, as offered by the neo-Marxist school. Low accumulation of capital as a result of prolonged unilateral transfer of resources under the colonial rule, in the earlier stage of capitalism created unemployment for a large part of the population in the 'periphery'. Commercialisation of third world agriculture has contributed in displacement of labour force from the agricultural sector. In the later stage of decentralisation of capital, transferring of manufacturing units to the 'periphery' has enforced destruction of traditional work-structure. All these factors have created conditions for a part of the labour force of the countries at the 'periphery' to choose migration across their national boundaries as a way of livelihood.

To summarise, international migration from poor to rich countries, according to the neo-Marxist school, is a result of the capitalistic development around the world. The development of capitalism, over the past two centuries, initially through colonial expansion and then through financial imperialism, has resulted in economic backwardness in the countries at the 'periphery'. High population density and its growth in many of the labour sending countries, in contrast with the receiving countries, can be traced back to the distorted form of accumulation and the connected social process. Low rate of accumulation, leading to low rate of employment generation, combined with high population growth, has resulted in high rate of unemployment in the poor countries. On the other hand, high rate of accumulation, combined with low rate of population growth, has created a lasting demand for immigrant labour in the advanced capitalist countries. Migration is only fallout of these supply and demand imbalances. In the later stages of capitalist development, financial imperialism, in the form of post-colonial trade and investment patterns have created further conditions for larger and cheaper supply of immigrant labourers from poor countries.

The neo-Marxist literature, especially what we included in this set of literature as the 'dual labour market theory' however, is applicable to only some particular streams of international migration. Being demand-based the dual labour market predicts that international flows of labour begin through formal recruitment mechanisms rather than individual efforts. This prediction is true for migratory flows like that of the guest worker to Europe or of the temporary workers to the Middle East etc. But a large part of the migratory flows, which are initiated by the independent will of the migrant and executed voluntarily, does not agree with this hypothesis. However, the demand determinedness of these voluntary streams of migration cannot be denied. Despite the willingness to migrate, actual migration of even the high skilled workers is subject to immigration control in the destinations the demand present in the prospective destinations. According to the neo-Marxists, migrants from the

'periphery' are employed in the lower end of the labour market of the 'centre'. But the phenomenon of 'brain drain' to the industrialised countries of the West cannot be explained by this hypothesis, these high skilled migrants occupy, almost with no exception, the so-called 'socially valued positions' in the destinations.

2.2. Experiences of International Migration around the World: mid 19th Century to the 1990s

This section is an attempt to reconcile the explanations provided by the neo-classical and the neo-Marxist school for international migration with the movement of people around the world. Our query, in this section, is about the economic factors that have generated voluntary migratory flows in different parts of the world. We shall try and demarcate the pull (i.e., demand) and the push (i.e., supply) factors operating behind the streams of migration.

International migration[6], associated with the movement of people from the labour surplus countries to the labour shortage countries, began almost five centuries ago, with the system of 'slavery' which continued till the its abolition in 1838 throughout the British Empire. The abolition of 'slavery' in the British Empire was followed by the movement of indentured labour. We shall begin our discourse with the movements of labour under the indentured labour system, which began life in the mid-19th century.

We shall separate our discussion in two subsections, with respect to time. Subsection 2.2.a will comprise a brief discussion the major channels of migration before the Second World War and their determining factors. Subsection 2.2.b will narrate the movements of people that took place after the Second World War.

[6] The migration channels described here are only those identified most prominently. No attempt is made here to be exhaustive in describing the migration scenario of the world.

2.2.a *Channels of International Migration: from Mid-19th Century till the Second World War*

Beginning in the mid-19th century till the Second World War, the entire time period can be divided into three phases, each of which can be distinguished in terms of direction and nature of migratory flows around the world. The system of indentured labour migration started with the abolition of 'slavery' and characterised the phase till almost the turn of the century. Distinguished from this indentured labour system, complete voluntary migration began in the last quarter of the 19th century. This phase continued till the First World War started. The third phase is the one between the two World Wars, when volume of migration was diminishing in most parts of the world.

System of Indentured Labour Migration

Starting around 1830, for a period of fifty years, about 50 million people left India and China to work as indentured labour on mines, plantation and construction in the Americas, the Caribbean, Southern Africa, Southeast Asia and other distant places, which were mostly British, Dutch, French and German colonies. The United States was another important destination where indentured labour also came from Japan.

Increase in industrial activities in the period following the industrial revolution required the lands and mines in the colonies to be worked on. This generated the demand for migrant labour in the colonies. Brief experiences with the European indentured servants proved generally unsatisfactory[7] and indentured labourers had to be supplied from colonies in China and India.

[7] Portes, A., 1983.

Between 1870s and the First World War

Between 1870 and 1914, volume of international labour migration[8] was enormous. During this period more than 50 million people left Europe, of whom two-third went to the United States and the remaining one-third went to Australia, New Zealand, Canada, South Africa, Argentina and Brazil. This mass emigration from Europe, amounted to one-eighth of its population in 1900. For some countries such as Britain, Italy, Spain and Portugal, such migration constituted as much as 20% to 40% of their population.

The migrants from Europe were mostly labour displaced from the agricultural sector that could not find industrial employment. It is obvious that this movement of displaced agricultural labourers from Europe was in response to higher expected earnings at the destinations of America, Australia and Africa. But the most important factor might have been that the demand for immigrant labour at these destinations came to be known by these prospective migrants. It is probably not that demand for immigrant labour suddenly became high during this time in the Americas, Australia or South Africa. Growth of communication facilities around this time helped the demand for labour in these destinations let known to the people in Europe. Cheap transport facilities, which were not so readily available till very long ago, facilitated the labourers in Europe, displaced from agriculture, to migrate with not so high cost as before.

The Inter-War Phase

International labour movement on this massive scale came to an end with the First World War. In the period from 1919 to 1939, migration continued but at a much lower level as immigration laws were introduced and passports came to be needed. The 'Great Depression' of the 1930s further dampened these flows. Introduction of immigration laws

[8] The discussion about the channels of migration draws upon Nayyar, 1999.

rendered international migration a demand determined character, as such laws allow labour inflows into the receiving countries, as long as there is demand for immigrant labour.

2.2.b *Channels of Migration: After the Second World War*

Immediately after the Second World War there had been a massive movement of people within Europe. The late 1940s also witnessed emigration from Europe to the United States and Latin America. Most of these migrants were refugees seeking to settle. In the second half of this century it is possible to discern two distinct phases of economically motivated international migrations. The first phase is the period between late 1940s and early 1970s and the second phase begins in the mid-1970s.

Late 1940s to early 1970s

From the 1940s to the early 1970s, there were two distinct streams of international migration. The nature and origin of each of these two streams are distinct.

For one, people migrated from Europe to the US, Canada, Australia and New Zealand. This flow was permanent in nature and was comprised of both skilled and unskilled migrants. Movement of people in this channel was driven by a search for economic opportunities, on part of the migrants, and by the nature of immigration laws in the countries of destination.

For another, a stream of people moved from the developing world, mostly Asia, North Africa and the Caribbean, to West Europe. Among these destinations of Europe immigration to Great Britain and Sweden were mostly permanent in nature and comprised of both high and low skilled workers. Immigration into countries, like Switzerland and Federal Republic if Germany immigrants were temporary, low skilled 'guest workers' and in France and Holland immigration streams consisted both of permanent migrants as well as temporary

'guest workers'[9]. The post-Second World War reconstruction phase and growth of economic activities in Western Europe since the late 1950s through the 1960s combined with full employment created labour shortages led to labour imports.

1970s to the 1990s

During the second phase, from the early 1970s to the late 1990s, migration to Europe almost came to a stop as immigration laws became restrictive everywhere. But there were once again two different streams of migration.

For one, the permanent immigration of people from the developing world to the US, mostly persons with technical skills and professional qualifications, made possible by the changes in the immigration laws in the 1960s. This stream incorporates a permanent migratory flow originating in India. We shall discuss the nature, composition and the push and the pull factors for this flow of migration, in greater detail, in the next section, in order to avoid repetition.

For another, there was a temporary migration of people from the labour surplus developing countries, mostly unskilled or semi-skilled workers in manual or clerical occupations, to the industrialised countries and to some developing countries where labour was scarce. The seasonal import of Mexican labour in the US and the export of workers from South and Southeast Asia and North Africa to the oil exporting countries of the Middle East, are all components of these temporary labour flows. In recent years, rapid economic growth and declining fertility have led to a considerable demand for migrant labourer in some Asian countries like Japan, Hong Kong, Taiwan, Singapore and Brunei. Labour import by these East Asian countries are also of temporary in large parts. South Korea and Thailand are on the verge of making a transition from being a labour exporter to a labour importer. Though the

[9] Rath, J., 1986.

migration of guest workers to West Europe started in the earlier phase during the 1950s, it continued till the 1070s and its nature is similar to these temporary streams of migration. Growth of economic activities and the consequent labour shortage in the prospective destinations gave rise to demand for immigrant labour mostly in the lower end of the labour markets. These temporary labour flows are results of such excess demand for labour observed in the destinations. We shall discuss in detail, the labour imports by the oil exporting countries of the Middle East in the next section in connection with India's export of temporary workers to the Middle East.

This migratory stream comprised largely of unskilled workers. In more recent years, a new typology has emerged in the migratory flows – the 'skill transients'. This includes international movement of people for training, the self-generated flow of professional expatriates towards locations offering them lucrative returns for their skills, and transfer of skilled staff by large multinational companies, from one country to another, within the international labour market of the company. Findlay (1995) suggested that the last of these categories constitute a distinctive migration channel, within the internal labour market of the multinationals, which is powered by economic trends towards globalisation of production. Transfer of the production units of the multinationals to the developing countries and the head quarters to the cities of the developed world has created demand for this flow of skill transients towards the head quarters. The push factor operating behind this flow of migration is the incentive for higher career opportunities or better working environment in the detonations.

2.3. Migratory Flows from India:

In the earlier section we had given a brief description of the migration scenario around the world since the abolition of slavery in 1838. We stated, in brief, the direction and

nature of the major streams of economically motivated migration in different parts of the world for the relevant period. We also attempted to demarcate the supply pushes and demand pulls behind them. In this section, we will consider in detail, those streams, which embodied migration flows that originated in India in the relevant period. Our objective in this section is to define the pull and push factors operating upon these streams, in particular. In the process, we shall examine how far can the neo-classical and the neo-Marxist explanations, presented earlier in this chapter, are successful in explaining each of these flows.

International migration from the Indian sub-continent began several years ago, when India came in contact with the Persian Gulf and the Southeast Asia. Movement of labour reached a significant height, first in the colonial era and again in the post-independence period. We shall discuss the phenomenon of Indian labour migration in the colonial era and in the post-independence era in the following two subsections.

2.3.a *Indian Migration in the Colonial Era:*

In the colonial phase, there were two distinct streams of migration from India. One stream was that of the indentured labourers who migrated temporarily to the British colonies under a system of contract. Another stream was that of the commercial migrants who were mostly permanent and completely voluntary migrants, unlike the indentured labourers. The former stream started in the mid-19th century and came to a stop during the First World War. The stream of commercial migrants can be traced back to the late 18th century, but took a significant dimension in the early 20th century and continued to be so in the inter war periods.

The Indentured Labour Migration System

Indentured labour migration from India is an integral part of the indentured labour migration system that prevailed in the colonial period around the world. Emigration of

workers from Indian subcontinent on a significant scale began with the system of indentured labour migration after the abolition of 'slavery', throughout the British Empire, in 1838, which gave rise to demand for labourers in semi-tropical regions. This opened up the migratory flows of Indian workers as indentured labour to plantations and mines in far away colonies, e.g. Guyana, Jamaica, Trinidad and Fiji. Indian labour also migrated to not so distant lands, e.g. Mauritius, Malaysia, Singapore and South Africa, and even to neighbouring countries such as Sri Lanka and Burma. The nature of job varied from cultivation of soil to manufacture of product, such as making sugar[10] to construction of railways. In India, official record for these emigrations begins way back in 1837. However, overseas migration became a regular feature only after 1843.[11] Though complete voluntary migration from Europe started as early as 1870s, the indentured labour migration phase continued to be present across the colonies of European nations, till the early 20th century. In India, this phase spanned the 19th century and the early 20th century came to an end soon after the First World War.[12] The British government abolished the indentured system around 1916[13].

Under the system of indentured labour migration, emigrants undertook work for a specified employer for a period of three to five years. They were used to build up major export industries in several countries. The working conditions were inhospitable and the wages were meagre in comparison to the workload. There was no discernible improvement in the economic conditions of most migrant labourers.[14] "They also ended up having only a precarious basis as a low status and distrusted minority in the societies they entered, and some times with no citizenship at all."[15]

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[10] P. Chaudhary, 1992.
[11] Lalita Chakraborty, 1978.
[12] Tinker (1974);
[13] Madhavan, M. C., 1985.
[14] *Ibid.*
[15] *Ibid.*

It is apparent from the above description of the indentured system of labour migration that expected wage differential did not play a significant role in generating the stream of migration under this system. It was rather completely demand determined, and the demand generated in the various colonies as a part of the process of capital accumulation undertaken by the colonial rulers. Shortage of labour, who would be ready to work in unhealthy working conditions and accept low wages, in the respective destinations gave rise to the demand for immigrant labourers from the colonies. This system of indentured labour migration confirms to the neo-Marxist explanations of international migration and the theory of the dual labour market.

The Flow of Commercial Migrants

The movements of the earliest commercial migrants, such as the merchants, financiers and construction contractors can be traced back to the late 18th century. This stream of migration became significant in volume in the early 20th century. Prime destinations of this flow in the 20th century were Ceylon, Malaya, Burma, Kenya, Uganda, Tanganyika, the Persian Gulf states, Hong Kong, Fiji and United Kingdom[16]. Throughout this period, colonial ties remained the basic determinant of the nature and the direction of migration. Majority of these migrants was salesmen, petty entrepreneurs, traders, shopkeepers and street side vendors as well as technical and clerical workers. Indian Sikh community was one of the prominent migrant communities during this time, mostly moving towards the United States, to work as agricultural labourers, who later organised agricultural co-operatives and made capital investments in agriculture in United States.[17] Professions of policemen, caretakers and guards were also prevalent among Sikh migrants. After abolition of the indentured system of

[16] M. C. Madhavan, 1985.
[17] Gonzales, J. L. Jr., 1986.

migration, migration of labour was entirely voluntary in the 1920s and in the 1930s[18]. Though sometimes, it was on a contract basis.[19] Most of these emigrants, who voluntarily migrated from India had little or no education and had endured uncertain and difficult economic conditions at home. Most of them migrated and chose to settle permanently in the countries of destinations.

Difference in expected earnings was the prime motive for migration of the voluntary migrants. Immigration laws came into existence during the inter-war phase. Therefore volume of migration during the 1920s and 1930s can be presumed to be influenced by the restrictions posed by immigration laws.

2.3.b *Migration from India: the Post Independence Period*

The export of labour from India, in the post-independence period, stands in sharp contrast to that in the earlier period. This contrast is not only in terms of skills but also in terms of destinations of migrants. In the post-independence period there are three streams in terms of destination and two phases in terms of characteristics of emigrants, in the process of emigration from India. The first phase spanned between the 1950s and the early 1970s when emigrations to the UK, and North America constituted the emigration flow from India in most parts. The second phase began in the Middle East-1970s when migration to the Middle East constituted most of the emigration from India. Emigration to the UK and North America continued in this second phase, but at a level, which was relatively lower than the level of migration to the Middle East. In the discussion that follows, we shall consider the two streams of migration separately.

[18] Tinker, 1976.
[19] Lalita Chakkaborty, 1978.

In the *first phase*, which began in the early 1950s, was characterised by a movement of persons with technical skills and professional expertise to the industrialised countries. The principal destinations were the UK, the US and Canada. Migration from India, to these countries, was mostly of the permanent nature. The proportion of migrants, to these countries, returning home permanently, is almost negligible. Before 1969, the UK was the most important destination for Indian migrants. Later on, the US and Canada became the chief destination of the Indian migrants.

Table 2.1 Emigration from India to Selected Countries, 1951-1990.
(Number of Persons)

Year	U.S.	Canada	U.K.	Year	U.S.	Canada	U.K.
1951	109	120		**1971**	1430	5313	6900
1952	123	126		**1972**	16926	5049	7600
1953	104	169		**1973**	13124	5433	6240
1954	144	208		**1974**	12779	12731	6650
1955	194	224		**1975**	15773	10106	1020
1956	184	254		**1976**	17487	6637	1102
1957	196	286		**1977**	18613	5514	7340
1958	323	325		**1978**	20753	5112	9890
1959	351	585		**1979**	19708	4517	9270
1960	391	505		**1980**	22607	8491	7930
1961	442	568		**1981**	21522	8265	6590
1962	445	529	2900	**1982**	21783	7792	5410
1963	1173	737	1550	**1983**	25491	7051	5380
1964	634	1154	1300	**1984**	24964	5513	5140
1965	582	2241	1710	**1985**	26026	4038	5500
1966	2458	2233	1670	**1986**	26227	6970	4210
1967	4642	3966	1910	**1987**	27803	9747	4610
1968	4682	3229	2310	**1988**	26268	10432	5020
1969	5963	5395	1100	**1989**	31175	8836	4580
1970	10114	5670	7200	**1990**	30667	10662	5040

Source: Nayyar, 1994.

Notes: (a) The above data on immigration is reported by country of birth for USA, by country of last residence (permanent) for Canada and by country of nationality for UK.

(b) Information on immigration from India to the UK is not available for the period before July 1962 because, until then Commonwealth citizens were not subject to immigration control.

Table 2.1 shows the annual number of Emigration from India to USA, Canada and UK between 1951 and 1990.Emigration to North America remained at a modest level until the middle of 1960s and gathered momentum thereafter. The number of emigrants to both

USA and Canada has steadily increased over the 1970s and 1980s. In contrast, emigration to the UK was at its height during the 1960s, slowed down since 1969 and stabilised at a lower level in the 1980s. However, there are certain limitations to the database[20].

Let us look at the skill composition of Indian emigrants to these industrialised countries. For UK data on the skill composition of emigrants from India are not available. Nayyar (1994) suggests a plausible inference about the occupational distribution of Indian immigrants to the UK during the relevant period. He suggests that until the early 1960s a large proportion of emigrants from India were constituted of unskilled, semi-skilled and skilled workers. He also suggests that this skill composition was attributable to the post war labour shortage and in part to the absence of immigration controls for Common Wealth citizens. The pattern of immigration and the underlying factors were perhaps reinforced by post-colonial ties and the associated bonds with the English language. It is possible that the same pattern continued during the 1960s, with a change in the skill composition towards a larger proportion of migrants with professional expertise and technical qualifications. However, as the immigration laws became progressively more restrictive it is almost certain that during the 1970s and the 1980s the occupational distribution of immigrants from India was determined by skills and expertise perceived to be scarce in the UK.

The skill composition of the emigrants to the US and Canada are presented in Table 2.2 and Table 2.3. Table 2.2 shows that in the first half of the 1970s, persons with professional expertise, technical qualifications and managerial talents constituted a large portion of emigrants from India to the US. But this share registered a decline over time and by the second half of the 1980s the relative importance of white-collar and blue-collar workers and tertiary sector workers among Indian emigrants started showing signs of increase. In spite

[20] For detailed discussion about the limitations of the database for the US, UK and Canada, see Nayyar, 1994. Chapter two.

of changes in skill composition of immigrants from India to the US, India remained a very important source of immigrants with professional expertise or technical qualifications for the US[21].

Table 2.2 Occupational Distribution (in Percentage) of Emigrants from India to the US 1971-90

Occupation Group	1971-75	1976-79	1982-85	1986-90
Professional & Technical	43.4	26.9	15.7	13.5
Executive, Administrative & Managerial	2.1	4.7	5.2	5.8
Clerical & Administrative Support	2.2	3.3	2.4	2.8
Sales	0.5	0.9	1.3	1.4
Service	1.1	1.0	2.2	4.5
Farming, Forestry & Fishing	0.3	1.7	2.7	3.3
Skilled Workers	2.2	3.3	2.9	2.5
Total Above with Occupation	51.8	41.3	32.4	33.8
No Occupation and Occupation not Reported	48.2	58.2	67.6	66.2
Total	100.0	100.0	100.0	100.0

Source: Deepak Nayyar, 1994

Notes: (a.) The above data are related to fiscal years and the annual figures have been aggregated for five-year periods. However, data are not available for the fiscal years 1980 and 1981.

(b.) Information on the occupation groups of immigrants is compiled by the country of birth.

(c.) For an immigrant entering the US or adjusting without a labour certification, occupation refers to the employment held in the country of last or legal residence or, during the legal residence in the US. For an immigrant with labour certification, occupation is the employment for which certification have been issued.

Table 2.3 shows that among Indian emigrants to Canada, the share of skilled workers in the manufacturing sector was as significant as the professional, technical and managerial persons. But over the years this share had declined. The significance of agricultural workers rose over years.

The contrast between the skill compositions of Indian emigrants to the US and Canada are worth noting. In Canada, the share of persons with professional expertise, technical qualifications and managerial talents was distinctly lower, whereas the share of skilled workers and those engaged in the Primary sector was higher.

[21] Nayyar, 1994.

Table 2.3 Occupational Distribution (in Percentage) of Emigrants from India to Canada 1971-90

Occupation Group	1971-75	1976-80	1981-85	1986-90
Professional & Technical	11.1	3.5	2.8	2.1
Entrepreneurs, Managers & Administrators	1.3	0.7	0.7	1.5
Clerical & Sales	5.5	2.6	1.5	1.7
Service	1.3	0.6	0.7	0.9
Farming, Horticulture & Animal Husbandry	4.3	1.5	3.7	4.7
Skilled Workers	14.0	3.2	2.4	4.1
Occupation not Clarified	4.2	12.2	18.8	20.2
Total Workers	42.3	24.3	30.6	35.2
Total Non-Workers	57.8	75.7	69.4	64.8
Total Immigration	100.0	100.0	100.0	100.0

Source: Deepak Nayyar, 1994.

Note: (a.) The data refers to calendar years and annual figures have been aggregated for five years.

(b.) These data, reported by country of last permanent residence, are based on the intended occupation of immigrants.

Now, let us consider the push and the pull factors operating behind the outflow of Indian labour to these industrialised countries. For emigration to both Canada and US higher wage in the destinations has had a significant impact on the volume of migration. Wei-Chio Haung (1987) and Agarwal and Winkler (1984) showed that wage gap between the developing countries and US (among which Indians hold a good share in terms of number of migrants) has significant and positive impact on the volume of migration. Agarwal and Winkler (1984) show, for the period 1968-69, that, higher per capita income in the United States, compared to the home countries, has a 'positive' and 'significant' impact on professional immigration to the U.S. as well as on non-return of professionals, who entered the U.S. as students or temporary workers or exchange visitors. However, the same study shows that, the impact of the prevailing wage gap, in influencing indirect immigration[22] of professionals, is more significant than the existing gap in per capita income of the US and the emigrating countries. For the emigration from third world countries to Canada, Devoretz and

[22] Indirect immigration is defined as non-return of professionals, who entered the U.S. as students, temporary workers or exchange visitors and finally adjusted their visa status to the status of permanent immigrants.

Maki (1983) for the period 1968-1973 and Akbar and Devoretz (1993) for the period 1976-1986 showed that income differentials and volume of migration of third world professionals are positively and significantly correlated. In the empirical studies mentioned above, on the immigration to Canada and US, India is included as one of the emigrating countries and the results hold for Indian immigrants as well.

The push factors operating on the migrants to the industrialised countries are low wage in the home country, for those who were employed before migration and unemployment in the home country for others. For the high skilled professionals, low wages, in the home country, than what they could expect to get in the destinations such as USA, UK or Canada has been more important as a push factor than mere unemployment. Many of the educated and high skilled professionals migrated as students before they entered the domestic job market. Therefore higher wages and living standards, better professional opportunities and working environment in the destinations of USA, UK or Canada, rather than unemployment at home acted was the prime factor causing emigration. For semi-skilled workers in clerical occupation or those engaged in the primary sector, unemployment in the home country has probably been an important factor behind emigration.

However, consideration of only the supply side is not sufficient for explaining any migratory movement across international borders. Emigration to a foreign country is possible only if there is demand for immigrant labour in the potential destination. Macphee and Hassan (1990), studying the U.S. immigration during 1972-87, found that, annual immigration in each profession is inversely related to the number of individuals, in that profession, graduating in the US. Studies by Devoretz and Maki (1983) and Akbar and Devoretz (1993) on immigration in Canada, respectively, for periods 1968-73 and 1976-86, showed similar negative correlation between the number of immigrants into Canada in a profession and

number of individuals graduating in Canada in that profession. Immigration has been allowed to meet the labour shortage that existed in these countries.

Arrow and Capron (1959) draws attention to the shortage of engineers and scientists, in the US, during the 1950s, even in the face of rising wages of these technical and professional workers. While the labour market functioned smoothly, there had been a rapid and steady rise in demand, both from the private industries and the government. Demand for technical workers, in the private industry, during the 1950s, was generated because of the increasing governmental contracts for 'research and development' work. The demand from the government increased due to the increased military expenditure, which required scientists and engineers for military 'research and development'. The supply reaction was low due to the prevalence of long term contracts and slow speed of diffusion of information. These bottlenecks might have been eased with liberal immigration laws during the 1960s. Since then, the response of the third world skilled graduates, combined with faster diffusion of information, resulted in a rise in immigration of PTK workers in the US. This research by Arrow and Capron rationalises the inflow of immigrant skilled workers into Canada and US from the third world in the 1960s and the 1970s. Continuous growth in economic activity led to a continuous rise in the demand for technical personnel, while the labour market otherwise functioned smoothly. Allowing immigration could simultaneously check the rising trend of wages and supply the required technical and professional workforce.

The demand determined character of the third world migration to US and Canada is reflected in the response of migratory flows to the changes in the immigration policies, of the two countries, that occurred during the 1960s. Immigration policies in both these countries were essentially preserving the basis of national origins for allowing immigration till the 1950s. 1951 Immigration act of Canada and the Immigration and Naturalisation Act of 1952 of the US preserved discrimination in favour of European migrants. This discrimination was

ended in the 1960s. The 'Immigration Act' of 1965 of US finally ended the national origin system, and substituted it with overall hemispheric caps on visas issued. It allowed a maximum of 20,000 visas to a country, per year, and overall 170,000 to the Eastern Hemisphere and 120,000 to the Western Hemisphere every year[23]. The 1967 Immigration Act of Canada adopted a point system to eliminate discrimination on the basis of nationality, country of origin, sex, colour, race or religion[24]. The gainers were the Asians and the Africans. Allowing immigration possibly served the purpose of checking the rising trend of wages by generating a supply of technical and professional workers to meet the rising demand for these workers. Both in Canada and in the US immigration from the third world, especially of third world professionals increased considerably since the mid-1960s[25].

At the same time, in both these countries, immigration was allowed only to the extent there existed excess demand for workers of different skill levels. The introduction of the 'labour certification', in the 1965 Immigration Act of the US, ensured that, immigrants who are coming primarily as workers, have the skills which are needed in the US, and are not snatching the job from any US citizen. In the subsequent acts, namely, 'Immigration Control Act' of 1986 and the 'Immigration Act' of 1990, the ceilings were raised to higher levels. At the same time, 'labour certification' for those employers who employed immigrants was always maintained to be compulsory. The 'labour certification' ensured that no immigrant was employed in place, where a national could be employed. Canada's immigration policy also adopted similar criterion since the 1977 act, for allowing immigration only to those workers for whom there was demand in the country. This ensured that immigration is allowed only to the extent, that the host country has a demand for the immigrant worker.

[23] Roger Daniel, 1992.
[24] Akbar and Devoretz, 1993.
[25] Keely, 1974, and Devoretz and Maki, 1983.

The above discussion about the push and pull factors operating on the emigration streams from India to the developed countries, such as the USA, the UK and Canada reveals that wage differential and differences in employment opportunities play a significant role in generating these migration streams. The neo-classical explanation holds true at this level. We have discussed earlier that the neo-Marxists explain international migration in terms of differences in the level of capital accumulation between countries. According to them higher level of capital formation combined with lower level of population gives rise to labour shortage in some countries (or the 'centres'), while in others, (i.e., the 'peripheries') lower level of capital formation combined with comparatively higher level of population results in unemployment or labour surplus. Excess demand for labour in the labour shortage countries compels them to import labour from labour surplus countries. The dual labour market hypothesis argues that in segregated labour markets in developed societies excess demand for immigrant labour are observed at the lower end of the labour market, as the domestic population of these developed societies do not find the low pay-low status jobs acceptable. However, immigration of third world professionals does not confirm to this dual labour market hypothesis, for they are not observed to be employed at the lower end of labour market. But the role of demand is apparent in generating this flow of migration as well as in determining its volume and skill composition. In explaining the supply of low skill labourers from the 'peripheries' the neo-Marxist literature point to the fact that many of the labour exporting countries around the world have undergone the rule of dictatorship in recent past. However this argument does not apply to the India. Even though India went through a development process, which is, in many ways, similar to other labour exporting countries, after independence the government made considerable outlay on higher education and skill developments. Probably, this is one of the main differences with the 'peripheries' of South and Southeast Europe and North Africa. This aspect of development process, carried out in India has produced a large pool of educated and skilled individuals, who migrated to the

developed countries like the USA, the UK and Canada, in a response to the liberalised immigration laws in these developed countries, in order to utilise better job opportunities there.

In the *second phase* after independence, in the history of international migration from India, the major destinations of migrants from India were the oil exporting countries of the Gulf. Emigration to the advanced capitalist countries continued even in the second phase. However, after 1979 it became insignificant, compared to the migration to the Middle East. Emigration to the Gulf began in the mid-1970s and reached its height in the early 1980s,which slowed down in the mid-1980s and increased to a new height in the early 1990s.

Table 2.4 Annual Labour Outflows from India to the Middle East, 1976-1994

Year	Number of Persons	Year	Number of Persons
1976	4200	**1986**	113649
1977	22900	**1987**	125356
1978	69000	**1988**	139888
1979	171000	**1989**	125786
1980	236200	**1990**	143565
1981	276000	**1991**	184882
1982	239545	**1992**	402313
1983	224995	**1993**	418364
1984	205922	**1994** (unto Oct.)	351488
1985	163035		

Sources: For the Period 1976-1990, *Annual Report*, Ministry of Labour, Government of India, New Delhi. For the period 1991-1994, Sasikumar, S.K. (1995).

Notes: (a) The figures for the period 1976-1990 relate to the number of Indian workers who obtained immigration clearances from the Proctor General of Emigration (PGE).

(b) The figures for the period 1991-1994 include Immigration Clearances Not Required (ECNR) endorsements with effect from 4.10.1991.

Table 2.4 shows the annual outflow of labour from India to the Middle East, since 1976. It shows that out migration increased at a phenomenal rate through the late 1970s and reached a peak level in 1981. During the next five years there was a steady decline in the number of migrants to the Middle East. The volume of migration remained nearly stagnated between 1986 and 1990 and since 1990 a sharp increase can be observed. In the years 1992 and 1993 the volume of migration reached a much higher level than the peak level reached in 1981.

The spurt in the volume of migration between mid-1970s and mid-1980s occurred as the dramatic increase in the price of crude oil and petroleum products led to an economic boom in these labour scarce oil-exporting countries. Iran and Iraq, who had previously supplied labour to the other labour scarce Arab countries, began to develop their own economies by this time. As a result, a large number of Iranians and Iraqis were attracted back home. This phenomenon acted as a catalyst to increase the demand for labour, in the Arab countries, from outside the Middle East[26]. Labourers were attracted from South and Southeast Asia and North Africa. A very large proportion of the Indian emigrants to the Middle East consisted of unskilled or semi-skilled and skilled workers in the manual and clerical occupations. Significantly, the movement of Indian migrants, to the Middle East, during this second phase, was largely temporary in nature. Migration to the Middle East from India primarily occurred from Kerala, Karnataka, Goa, Maharashtra and Gujarat on the western coast and Punjab, with the highest incidence on Kerala.

The increased outflow in the 1990s occurred due to the outbreak of the Gulf crisis in 1990.[27] It was apprehended that emigration from India to the Middle East would decline in the following years. But available evidences indicate that labour migration peaked up substantial

[26] Arnold and Shah, 1986a.
[27] G. Nair. (1991)

momentum since 1989. The revival of economic growth in most Middle East states and a large scale reconstruction of the war-torn areas seem to have considerably boosted the migrant labour requirements in the Middle East.[28]

The data on the distribution of this outflow by country of destination are available from 1982 onwards. Table 2.5 and Table 2.6 present the country-wise distribution of annual labour outflows from India to the Middle East during the periods 1982-90 and 1991-94 respectively. In Table 2.5 we find that during 1982-90 there was a sharp decline in labour imports from India by all the eight countries under consideration. Saudi Arabia, Oman and United Arab Emirates were the three principal importers of Indian labour.

Table 2.5 The Distribution of Annual Labour Outflows from India to the Middle East by Destination, 1982-1990 (Number of Persons and Percentages)

Country	1982	1983	1984	1985	1986	1987	1988	1989	1990
Bahrain	17069 (7.1)	18894 (8.4)	15514 (7.5)	11246 (6.9)	5784 (5.1)	6578 (5.2)	8219 (4.8)	8520 (6.8)	6782 (4.7)
Iraq	35268 (14.7)	13001 (5.8)	11398 (5.5)	5855 (3.6)	5040 (4.4)	2330 (1.9)	4284 (2.5)	5085 (4.0)	1650 (1.1)
Kuwait	9764 (4.1)	14490 (6.4)	5466 (2.7)	5512 (3.4)	4235 (3.7)	7354 (5.9)	9653 (5.7)	5679 (4.5)	1077 (0.8)
Libya	10433 (4.4)	5900 (2.6)	5179 (2.5)	2449 (1.5)	2552 (2.2)	2272 (1.8)	593 (0.3)	632 (0.5)	305 (0.2)
Oman	39792 (16.6)	49120 (21.8)	43228 (21.0)	37806 (23.2)	22417 (19.7)	16362 (13.1)	18696 (11.0)	16574 (13.2)	34267 (23.0)
Qatar	14357 (6.0)	7772 (3.5)	4362 (2.1)	5214 (3.2)	4029 (3.5)	4751 (3.8)	4654 (2.7)	7991 (6.4)	3704 (2.6)
Saudi Arabia	78297 (32.7)	83235 (37.0)	88079 (42.8)	68938 (42.3)	41854 (36.8)	57234 (45.7)	85289 (50.2)	49710 (39.5)	79473 (55.4)
UAE	19277 (8.0)	25559 (11.4)	24286 (11.8)	21286 (13.1)	23323 (20.5)	24931 (19.9)	34029 (20.0)	26189 (20.8)	11962 (8.3)
Others	15288 (6.4)	7024 (3.1)	8410 (4.1)	4729 (2.9)	4415 (3.9)	3544 (2.8)	4471 (2.6)	5406 (4.3)	4345 (3.0)

Source: Nayyar, 1994.

Note: The percentage figures may not add-up to 100 because the figures have been rounded off.

[28] S. K. Sasikumar (1995)

Labour exports to these three countries helped sustain the flow of out migration at levels, which may not have been possible, in the face of economic contraction in the Middle East. The demand for imported labour in these economies did not slacken as much as in other economies, because the emphasis on the development of infrastructure and in the industrial sector continued for some time after the drop in oil prices. Apart from this, labour export to Oman and UAE was sustained on account of historical factors and a long-term economic association with India.[29]

Table 2.6 shows the distribution of annual labour outflows from India to the Middle East by countries of destination during the post Gulf war period. Import of Indian labour has increased markedly in all the eight countries in 1992 compared to the pervious year. In the subsequent years, import of Indian labour stagnated in these countries around the level reached in 1992, except for Kuwait and UAE, where import of Indian labour increased even after 1993 and Bahrain and Oman, where immigration shows a falling trend since 1993. Among these economies Saudi Arabia had increased its labour import from India to the highest extent in 1992. In the subsequent years it maintained the level of labour import from India at almost the same level. The post Gulf war reconstruction in the war-affected countries is likely to have generated demand for immigrant labour. Saudi Arabia, Kuwait and Iraq are the three countries in the Gulf, most affected by war. The figures for Iraq are not separately available since the year 1992. However, it is included in the category 'others' which shows a rising trend in the volume of immigration of Indian labour during the relevant period. Kuwait is the only country, which increased import of Indian labour steadily in the period 1991-1994. As we have said earlier, along with post-Gulf war reconstruction, a revival of economic growth in the Gulf induced demand for immigrant labour.

[29]For the historical factors as determinants of international migration to the Gulf, see Weiner, 1982.

Table 2.6 The Distribution of Annual Labour Outflows from India to the Middle East by Destination, 1991-1994 (No. of persons and percentages)

Country	1991	1992	1993	1994*
Bahrain	8630 (11.6)	16548 (3.9)	15622 (3.6)	10988 (3.0)
Iraq	26 (.03)			
Kuwait	7044 (9.5)	19782 (4.7)	26981 (6.2)	20638 (5.6)
Saudi Arabia	12098 (17.7)	265180 (63.4)	269639 (61.5)	235725 (64.3)
Libya	475 (.64)			
Oman	22333 (30.1)	40900 (9.8)	29056 (6.6)	21910 (6.0)
U.A.E.	15446 (20.8)	60493 (14.5)	77066 (17.6)	62227 (17.0)
Others	7121 (9.6)	13971 (3.3)	19974 (4.6)	14937 (4.1)

Source: *Annual Report*, 1994-95, Ministry of Labour, Government of India. (extracted from Sarkar, 1996)

Note: (a) * The calculations for 1994 is done with value upto October.

(b) In case of Iraq and Libya the figures for the years 1992-1994 are not separately available. However they are included under the category 'others'.

Let us now look at the skill composition of Indian migrants to the oil producing countries of Middle East. Table 2.7 presents the available evidence in this regard for three selected years in the 1980s with the necessary level of disaggregation. The skilled workers in the construction sector comprise of carpenters, masons, fitters, equipment operators, welders, blacksmiths etc. Skilled workers in other activities and services include drivers, cleaners, electricians, plumbers etc. The category of white-collar workers includes storekeepers, clerks, typists, salesmen etc. High skill workers of the paramedical staff category include nurses, radiology and laboratory technicians. Engineers, surveyors, computer operators, draftsmen etc. are included as the technical and supervisory personnel.[30] Table 2.7 does not provide information about the professional personnel like the architects, design engineers, chartered

[30] Nayyar, 1994.

accountants, lawyers, management executives etc. It appears from Table 2.7 that unskilled workers and skilled workers constituted respectively, 40% and 50% of the total labour outflow from India to the Middle East. In contrast to this white-collar and high skill workers constituted as little as about 5% each.

Table 2.7 The Skill Compositions of Labour Outflows from India to the Middle East, 1984-1986. (percentages)

Skill Category	1984	1985	1986
1.Unskilled Workers	43.0	34.2	40.1
Construction labour	41.7	31.5	34.6
Farm Labour and household workers	1.3	2.7	5.7
2. Skilled Workers	41.8	52.8	47.0
Construction sector	22.3	28.4	21.5
Other activities and services	19.5	24.4	25.5
3. White-collar workers	3.6	3.5	6.5
4. High skilled workers	3.2	4.5	5.2
Para-medical staff	1.3	0.7	1.0
Technical and supervisory personnel	1.9	3.8	4.2
5. others	8.4	5.0	1.2
Total	100	100	100

Source: Nayyar, 1994

The skill composition of labour demand in the Middle East, in the 1990s, shifted away from several categories of unskilled labourers towards higher skill categories like

service, operations and maintenance workers.[31] But evidences suggest that skill composition of labour outflow from India, in the 1990s, remained as lopsided as in the 1980s.[32]

Low wages and unemployment in the home country acted as the push factor operating behind this emigration flow to the Middle East. Higher wages in the Gulf was an incentive to migrate.

The pull factor behind this emigration to the oil producing countries of the Gulf should be obvious by the discussion so far. The rise in the demand for international labour in the oil rich countries, in the 1970s, was caused primarily by the rise in oil revenues, ambitious national development plans, and a greater demand for labour than the national pool can supply.

The structure of development in the migrant receiving countries of the Gulf was such that the most labour intensive stage of their development plans, i.e. the construction phase, was launched simultaneously in different capital rich states. At the period of intense labour demand, such as in mid-seventies, the labour supplying Arab States failed to meet the accelerating demands in the oil rich states. The labour importers, therefore, had to broaden their catchment area. First they turned to the Indian sub-continent and later to the countries of East and Southeast Asia. Different points of view have been expressed to explain the Arab labour shortage. A few among the various view points are, exhaustion of Arab labour sources, restricted mobility due to occupational rigidities, lack of regulation of labour supplies in supplying countries of the Arab region, diversification of labour catchment area by oil rich countries for secured labour supply in future etc[33]. Labour contracts were increasingly 'formalised' through the recruiting agents, especially in the Indian sub- continent. No similar

[31] Sasikumar, 1995.
[32] Annual report (1994-95), Ministry of Labour, Government of India.
[33] Nagi, 1986.

formalisation occurred in other labour supplying countries of the Arab region. The need for migrant labour, on one hand, and partial operation of the wage-gap incentive, enforced the recruitment agencies to meet the increased demand for labour.

Wage differential, as a determinant of migration to the Middle East from India cannot be ignored. But this neoclassical explanation is not sufficient, given the nature of the flow. Increase in economic activity and higher level of capital accumulation as a result of rising oil revenue, in the 1970s, and post-Gulf war reconstruction and the subsequent economic revival in many of these countries gave rise to labour demand. But in the eighties these countries experienced fiscal restraints, shift of emphasis from infrastructure to human resource development and growth of private sector, especially in industry and business. All these factors had led to a fall in demand for Asian workers and caused return migration. Migrant labour, in these times can be perceived to be acting as the 'reserve army of labour'. The neo-Marxist explanation seems to be befitting to this flow of migration.

Presence of a 'dual labour market' is apparent in the oil producing countries of the Middle East. Occupational preferences and skill concentration among certain nationalities is a feature of the labour market in these countries. Traditional 'blue collar' jobs and skill trades are more prevalent among the *Shiite* population of the receiving countries, particularly Saudi Arabia, Kuwait and Bahrain. The population of sending countries of the Arabian peninsula, like Egypt, Palestine etc. are more prevalent in administrative, educational and professional occupation that require knowledge of the Arabic language. Construction work is predominant for Indians, Pakistanis, Koreans, and to some extent Egyptians[34].

The segregated structure of the market, between Arabs and non-Arabs, has been made possible due to similarity of socio-cultural environment in the Arabian region and the

[34] Nagi, 1986.

dissimilarity of the same between that region and South Asia. The Arabs, both migrants and natives, share the same sense of social prestige and status, attached with a job. Asians are more likely to compare their jobs, and the earnings and the status associated with it, with the population of their own countries and not with the Arabs. Thus, it is possible that, whenever a demand for labour generates, at any strata of the labour market, Arabs shift vertically to better-paid jobs, giving a vacuum at the lower end of the market. This vacuum is then filled by importing workers from other Asian countries, who are willing to take jobs with low pay and inferior facilities and working environment.

Table 2.8 Intra Company Transferees to the USA, 1985-1994.

(1) Year	(2) All Countries	(3) Asia	(4) India	(5) (3) as percentage of (2)	(6) (4) as percentage of (3)
1985	65,349	13,199	891	20.1	6.7
1986	66,925	14,660	940	21.9	6.4
1987	65,673	15,293	913	23.3	6.0
1988	63,849	15,901	862	24.9	5.4
1989	62,390	15,868	674	24.3	4.2
1990	63,180	16,376	714	25.9	4.3
1991	70,357	19,283	704	27.4	3.6
1992	75,347	21,909	814	29.0	3.7
1993	82,781	24,465	1,235	29.5	5.0
1994	98,189	28,707	1,541	29.2	5.3

Source: Immigration and Naturalisation Services, USA.

In recent years, a new temporary migratory stream comprising of high skilled technical and managerial personnel (or who can be called the 'skill transients') is being observed to originate from many developing countries including India. They move internationally for training or better career opportunities towards locations offering them lucrative returns for their skills. This flow also includes staff by large multinational companies transferred to their respective head quarters (the intra-company transferees). This flow of skill-transients is destined towards the cities of the western industrialised countries as well as to the East Asian countries. Given the availability of data, we present the trend in the

volume of intra-company transfers to the US. This is only a fraction of the entire volume of skill-transients migrating around the globe. Table 2.8 shows a rising trend in intra-company transfers, into the United States, from the remaining part of the World, from the continent of Asia, and from India.

This stream of migration can be associated to the present stage of development of capitalism. Increasingly decentralised form of production and transfer of production units to the developing world or what is called the 'peripheries' by the neo-Marxists, while the headquarters remain in the 'centre', have, over time, generated this temporary flow of high skilled technical and managerial personnel.

Concluding Remarks:

The prime objective of this chapter has been to search for the possible reasons behind movement of people across borders and for this purpose we have explored the neo-classical and the neo-Marxist literature. The neo-classical literature explains migratory movements in terms of expected or actual wage differential between the prospective destinations and the origin. The neo-Marxist literature explains migration in terms of differences in the level of capital accumulation between the source or the 'periphery' and the destination or the 'centre'. The neo-Marxist literature further suggests that immigrant labour are imported by the developed nations to fill the excess demand for labour at the lower end of the labour market through contractual agreements with the labour exporting country.

Experiences around the world suggest that wage differential and differences in employment or professional opportunities between the source and the destination have an obvious role in generating migratory flows. Experiences of various labour exporting countries point to the fact that, in presence of difference in income and employment opportunities

between the source and the destination, actual movement of people between the two countries and magnitude and skill compositions of the migratory flow are subject to the openness of the immigration laws at the destination. Thus, the migratory flows are determined as well by the demand for labour in the receiving countries. The experience of 'guest workers' of the West Europe or the contract labourers of the Middle East suggest that, demand for low-skilled labourers, to be employed at the lower segment of the labour market at the destinations, is a major factor in determining migratory flows.

Experience of the Indian economy proves that low wages, high level of unemployment and lack of professional opportunities are responsible for generating migratory flows for labourers of all skill levels. However, demand for labour at the destinations have played a major role behind migration, especially under the system of indentured labour migration in the colonial period, and the temporary migration to the Gulf in the post-independence era. Demand in the destination was also important in determining the magnitude of the migratory flows, to the US, Canada and the UK, which comprises largely of skilled workers, given the nature of immigration laws in these countries.

From the theoretical explanations and the empirical evidences, it is apparent that the neoclassical literature and the neo-Marxist literature explain migration from two different levels. The neoclassicals explain migration, at a macro level, by aggregating individual decisions and therefore, the incentive of differences in payoffs between the source and the destination is central to their explanation. The neo-Marxists, on the other hand, stresses on excess demand for labour in the destination as the driving force behind generation of migration streams.

Chapter 3

Constraints and Incentives for a Decision to Migrate

In a world where the labour flows are not enforced by any institutional mechanism, whether one would migrate or not is after all a decision of an individual worker. These decisions are all optimising problems of a rational agent, maximising individual utility by choosing the place of employment, subject to a constrained income or fund, which is required to meet the consumption expenditures and the cost of migration. The agent may be a person, or a family, or whoever is economically affected by the concerned person's place of employment, and not necessarily the migrant herself. The isolated sets of theories, which we will discuss in this chapter, are all similar on this point. They differ primarily in two points. Firstly, in choosing the variables, which constitute the utility function of the agent. These components range from, higher income abroad to a preference for home country due to reasons including monetary and non-monetary ones. The second difference occurs in relation to the assumptions regarding the conditions prevailing in the countries of origin and destination, which affect the agent's utility function or pose as constraints, thereby affecting the decision.

Our intention will be to set forth a few sets of theories, in short, and try to reconcile them with the decision making process of a prospective migrant, given her economic environment, and conditions, that can affect her decision.

In section 3.1, we will introduce the neoclassical decision theories, regarding migration. In the next section we will discuss the works of Oded Stark and others, which is generally known as the 'New Economics of Labour Migration'. This section will narrate three different sets of hypotheses on a decision to migrate, as explored by the

'New Economics'. These hypotheses are the '*risk aversion hypothesis*', the '*relative deprivation hypothesis*' and the '*asymmetric information hypothesis*'. While the neoclassicals explain a decision to migrate entirely in terms of expected monetary returns or professional opportunities through migration, the 'New Economics', especially the first two hypotheses, explains the same in terms of influence of social entities affecting the decision. The third hypothesis of 'New Economics' situates an agent to decide on whether to migrate or not, in a world of asymmetric information. In section 3.3, we will present some theories that explore how a liberalised trade regime affects a decision to migrate. In the final section, we will explore the factors that induce agents to decide to migrate temporarily and vary their duration of stay in the destination.

3.1. The Neoclassical Approach:

Corresponding to the macroeconomic model of migration, the neoclassical school has presented a micro-economic model of individual choice for migration (e.g. Sjaastad, 1962, Todaro, 1969, 1989). In this framework, rational individual agents decide to migrate because a cost–benefit calculation leads them to expect a positive net return, usually monetary, from the movement. International migration is conceptualised as a form of investment on human capital. People choose to move to where they can be most productive given their skills and capture the higher wages associated with their labour productivity. For that they must undertake certain investments which include the costs of travelling, the cost of maintenance while moving and looking for job, the effort involved in learning a new language and culture, the difficulty experienced in adopting to a new labour market, and the psychological cost of cutting old ties and forging new ones.

Potential migrants estimate the costs and benefits of moving to alternative locations and migrate to, where the expected discounted net returns are largest over some

time horizon. Let, ER(0) is the expected net return to migration, discounted over time, calculated at time, $t = 0$, i.e. just before the time of departure. Then, the expected net return is given by,

$$\text{ER}(0) = \int_0^n \left[P_1(t)P_2(t)Y_d(t) - P_3(t)Y_o(t)\right] e^{-r.t} dt - C(0) \qquad (3.1.1)$$

Where, $P_2(t)$ is the probability of getting a job at the destination country.

$P_1(t)$ is the probability of avoiding deportation, which is equal to 1 for legal migrants and is less than 1 for illegal migrants,

$P_3(t)$ is the probability of getting a job at the home country,

$Y_d(t)$ is the earning, if employed at the destination country,

$Y_o(t)$ is the earning, if employed at the home country,

r is the discount factor,

and, $C(0)$ is the total cost of migration.

A rational individual migrates to some destination if, for that destination, ER(0) is positive. The potential migrants compare the expected returns associated with various destinations and migrate to that destination, for which ER(0) is maximum.

The decision of a potential migrant may, however, be affected by various other factors. Firstly, greater the demand for the skill, one is endowed with, in the destination, greater is one's expected return of migration and greater is the incentive to migrate. Secondly, individual characteristics and social conditions affect the costs of migration, via the psychological costs and efforts for learning a new language or adapting to a new culture. The cost of migration is also affected by the state of technology in the home country. These individual characteristics, social conditions or the state of technology in the home country affect the net returns of migration. If the social conditions in the destination are psychologically attractive to the prospective migrant, cost of migration

may even become negative. In such a case, a negative income differential may be necessary to halt migration.

Aggregate migratory flows between countries are simply sum of individual movements, undertaken on the basis of individual cost benefit calculations. The migration cost, which is dependent on variables like the psychological costs of social adoption, may be applied to explain the subjective questions like, why a migrant moves to a particular country and not another even if the income differential is same for both destinations, or why an individual does not migrate, even in presence of a wage differential. The cost benefit calculation of one individual differs from another only in this respect, when they are considering to move to some destination, with the same level of skill.

Neoclassical theorisation on the decision to migrate explains an ex-post situation based on an ex-ante calculation of probabilities. We have pointed this in the earlier chapter too. This kind of an approach requires the assumption that a person's choice is independent of his precise context and location, i.e., whether she is a potential migrant in the rural areas or an actual migrant but unemployed in the urban areas, her choice of residence remains unaffected. If a person is in the city without a job, she cannot still go on making decisions regarding the choice between being in the village and migrating to the city, with say x percent chance of a job. Given that now she is unemployed, the total ex-post situation must depend upon what she decides to do with the options now available to her. In such a case the urban unemployed would migrate back to the rural areas. Todaro model cannot explain why a migrant who has not been able to secure a job would stay on in the urban areas or the destination.

Apart from this quantitative criterion of expected earnings, neo-classical economics offers some qualitative criteria for a decision to migrate. Scott (1970) enlists three such criteria. These criteria are

1) *Professional opportunities*: At least some people from developing countries decide to migrate abroad because of lack of openings or sufficient diversity at the origin, even if wage differential is minimal. But it is certainly very difficult to asses how important is this criteria in a decision to migrate, because any migration with a motive of obtaining better professional opportunities cannot be separated from the migration with motive of obtaining higher income. Obtaining the former almost always coincide with obtaining the latter.

2) *Living conditions*: This includes everything from political environment to the availability of peanut butter. It has been observed that ethnic minorities are especially liable to migrate, presumably because of discrimination in the home country[1].

3) *Working conditions*: This criterion is important for the high skilled person who decides whether or not to migrate. Many scientists immigrate to the developed countries because of availability of research facilities and libraries there.

These choice-criteria are more applicable to skilled professional migration.

By and large, data is lacking on migration itself and on likely determinants in particular. The latter unlike the former would be impossible to compile. Whatever little evidence is available are subject to limitations. We will present some empirical studies in support of the neo-classical hypothesis.

[1] The UNITAR study cited in Bhagwati and Krugman (1975).

Hatch and Rudd, (1968)[2], explores the relative importance of some of these criteria in the decision for migration of overseas British migrants with graduate education, who had been overseas sometime or the other, between 1957 and 1966. He finds that majority of those who were still overseas in 1966 migrated more often due to income-related reasons and less often due to professional openings or opportunities overseas. Myers, (1972) who studied the reasons of non-return of students educated in the US, found that availability of financial scholarship were the principal criteria in a decision to stay back or 'non-return' among students of different countries. Glaser, (1973) with the help of a questionnaire survey, conducted on a group 2000 people, including three sets of people, namely, students from less developed countries (LDCs), then studying in developed countries (DCs), professionals who had received overseas training and then returned and professionals who had not returned, found the following relevant associations.

1) Members of religious, cultural and ethnic minorities have a relatively high tendency to migrate. The incentive of a better living condition abroad, in the form of a better political environment can be associated with this nature of migration flows.
2) Respondents generally cited working conditions and professional needs as reason to emigrate and personal relations as reason to remain home.

The above findings relate to the migration of the high skilled professionals or students, from the developing countries, who decide to migrate to and not to come back to their home country, but stay on. As can be observed from these findings, the reasons for decisions in favour of migration to or non-return of these individuals from developed countries are not just confined to wage differentials. The three criteria set by Scott (1970) are among other reasons for these decisions. However, it is difficult to infer about the

[2] This and the following studies presented in the paragraph are cited in Bhagwati and Krugman (1975).

magnitude of importance, each of these criteria are assigned, in the decision making process of the individuals.

3.2. The New Economics of Labour Migration:

The neo classical theories harp on the differentials in earnings and employment opportunities as a reason to migrate. The same sort of criticisms can be put for the established neoclassical microeconomic theories, as we have discussed in the earlier chapter about their macroeconomic counterpart. It follows from the neoclassical explanations that migration should occur only and entirely from every poor to every rich country, in response to greater possibilities of earnings and professional opportunities in the latter. The 'new economics' attempts to explain international migration in terms of the role of wider social entities in conditioning migration. It identifies linkages between migration as a distinct labour market phenomenon and other labour and non-labour market phenomena. But none of its arguments is supposed to negate the importance of substantial net earning differential as a cause of international migration.

The conventional neoclassical theories do not distinguish between a decision to migrate internally and one to migrate internationally. An individual, according to neoclassical explanations, decides to migrate internationally only if the expected payoff (which can be a function of earnings and professional opportunities) is higher than the expected payoff that he can obtain from any internal destination. The 'new economics', however, identifies that, that crossing international border, and thereby entering a new economy and culture is different from mobility within the same country; and the difference is certainly not just in degree. The incentive of only higher wages cannot explain, why from a given geographical area, some people migrate internally and some others internationally. The 'new economics' looks for some additional motives, over

mere earning differentials, for international migration, by drawing upon 'discontinuities' with respect to *risk diversification, relative deprivation* and *information asymmetry* between countries. These factors are explained in the following discussion.

Before we go into the explanations of the three factors mentioned above, it is needed to explain to the reader the nature and scope of the factors, as plausible explanations for a decision to migrate internationally. The first two hypotheses, namely the risk diversification hypothesis and the relative deprivation hypothesis, visualises migration, as a decision of the family, residing in rural areas, in order to increase or stabilise family income, absolutely and relatively to the neighbouring households. The influence of social and economic entities on the family's decision to send one or more of its members is particularly visible in these two hypotheses. The third hypothesis, i.e., the asymmetric information hypothesis is different from the other two in that it identifies the primary reason for migration to be the wage differential between countries and explains how asymmetry in information flows affects the magnitude of wage differential. This hypothesis does not necessarily explain migration from rural areas, which the other two do.

3.2.a. *Risk Diversification: An Incentive for Migration*

Stark and Levhari (1982), Stark (1984a), Stark (1984b), and Stark and Bloom (1985) have put forth the rôle of risk aversion as a determinant of migration, in the context of rural-urban migration in LDCs. Todaro's pioneering article (1969) explains migration in response to greater expected earnings. However, evidences show that, rural-urban migration often result not in high paying formal sector jobs, but unemployment or underemployment in the urban informal sector, remunerated by income that is meagre, even by rural standards. In that case the agent would have to take a long planning horizon

in which expected future earnings are sufficiently high to compensate for the temporary loss of income. If the degree of short-run variability in earning is too high, it may become a source of disutility. However, the way in which variability in alternative rural earnings and future urban earnings must figure in the migrant's calculations, is beyond the grasp of Todaro's 'expected income hypothesis'. The 'new economics', in this respect, introduces 'risk' and 'risk aversion' as additional variables, which figures in the expression of 'expected returns', to explain the decisions to migrate.

Stark and Levhari (1982) argue that, an 'optimising, risk averse, small farmer family', confronted with a subjectively risk increasing situation, manages to control its risk by diversifying its income portfolio, by placing of its best suited member in the urban sector, which is independent of agricultural production. The assumption of a 'risk averse, small farmer family' is important. By the term 'risk averse' it is meant that the family is consistent with the notion that, a given constant flow of income is always preferable to an inter-temporal distribution of income, whose expected value is equal to that constant flow of income. Such a family might have a strong desire to innovate, but might deter itself from adapting a new technology because of its high risk content, even in the face of higher expected output. The family will rather spread its risk, in order to diminish it, by diversifying the income sources. One option open to the family is to send one of its members to the city. This option, however, comes in the absence of options like, 'on-the-farm-diversification-cum-technological-transformation', or 'ex-farm agricultural or rural diversification'. The former of the options can be ruled out because the agent is assumed to be a 'risk averse, small farmer family'. The later is negated by the assumption that the country is a LDC, where the family cannot obtain the desired income security level through transacting in the local insurance market. In the LDCs, credit markets are largely imperfect, at least in the rural areas. Unlike in a DC, insurance facilities like crop

insurance, insurance against future markets, unemployment insurance etc. are either absent or imperfect in LDCs. And this raises the need to insure internally, within the family. This need is amplified when the family introduces or contemplates introducing a new technology into the production process, because the new technology is expected to yield higher return as well as carry higher risk.

In absence of a properly functioning credit and insurance market if the decision-making unit is not a family but an individual who is risk averse, then also rural-urban migration may be adopted as a means of risk aversion. Even when no new technology is introduced, agricultural production is always subject to some level of risk, which is moderately spread over time. It is assumed that risk associated with urban unemployment diminishes over time for an individual who has migrated to the town. In later years, this risk for the migrant reaches a lower level than the risk associated to agricultural income. The individual migrates if the present value of migration-income is higher than that of agricultural income. The decision goes more in favour of migration if the time discount rate of the individual is lowly.

A crucial condition for migration, to reduce the risk factor in earnings, is that the urban income is independent of incomes from all other sources, especially the agricultural incomes. If the country is well integrated, not much diversified, or if urban manufacturing is agriculture based, then migration to the urban sector, within the country, may yield income, dependent on the agricultural income, with similar risk contents. In such a case, international migration can act as a *risk control devise*.

The incentive for migration to each agent depends on the degree of familial or individual risk aversion and the rate of time discount. The more risk averse is an agent, the more incentive is there for international migration since, that would possibly obtain

her an urban job that earns comparatively risk free income. Lower is the discount rate of an agent, higher is the incentive to migrate. Lower is the discount rate, lower is the difference between the values assigned to present and future income. An individual with lower discount rate will be willing to forego a part of her present income to secure a higher and stable income in future. Such an individual will be willing to take the initial risk of migrating to the city, in another country, in order to earn stable income in future. Higher discount rate may induce an individual not to take the risk of migrating at all, or to take smaller risk of migrating internally.

Agriculture based developing countries like Bangladesh, where urban industries like jute textiles are based on agriculture, fails to satisfy the condition of independence of rural and urban incomes. Therefore the risk aversion hypothesis can be applied as an explanation for the emigration of individuals of rural origin, from such countries where urban industries and rural agriculture are interdependent. But this hypothesis cannot explain why an individual will emigrate internationally, from the rural areas of a country like India, where all urban industries are not necessarily dependent on rural agriculture, so that there remains scope for the migrant to get employment in urban industries that earns her income, independent of the risk prone rural agriculture. Probably, the risk diversification hypothesis is true for the migration of the Indian middle class, who emigrates as skilled professionals to the industrialised countries. This is true in view of high degree of unemployment among the urban educated middle class in India. It is frequent among urban middle class families in India to send a child abroad who is expected to remit and supplement the family income, which may be fluctuating due to the possibility of other members not getting employed.

Stark and Lauby (1988) have discussed the case of young rural women of Philippines, who constitute a major part of the mobile population of that country. They

have pointed to the fact that females, who migrate to the cities, go alone and not as tied movers with men. These women are very young and some are as young as fifteen. The contention is that migration decisions of such young women are not their own. Their parents send them in order to supplement rural family income. The authors opined that the daughters are more in control of the parents, than the sons and hence, the migratory decisions of the women are more likely to be influenced by their families. The paper also shows that, the parent's education, status of occupation, and the number of siblings in the family have a negative impact on the daughter's migration. This establishes the fact that migration occurs in order to supplement family income. These women work mostly as wage earners in traditional service occupations, which are generally low paying, but provide a steady flow of income that is independent of the agricultural income. This fact establishes that rural-urban migration is carried out to diversify the risk content of agricultural income.

Whether this theorisation of decision to migrate, in order to diversify risk, associated with rural income, holds for prospective migrants from India or not, is subject to empirical testing, similar to those done by Stark and Lauby (1988), on Filipino women and by Stark and Tailor (1989, 1991), on Mexican villagers. Since, such estimations are apparently absent we present Leela Gulati's (1986) findings on the prospective migrants from Kerala. She narrated the story of a village in Kerala. The influence of the family is seen to be an important factor, regarding the decision to migrate. Migrants are mostly young men, below the age of thirty-five. 'Risk aversion' is one of the most important reasons for migration, in this village. People earn their living mostly by fishing, which is subject to considerable risk, as any other agricultural occupation. Families, therefore, send their young sons to the Gulf, where they earn a steady income by working as semi-skilled workers and supplement the family's uncertain income from agriculture or

fishing. Migration is seen as an investment, with high initial risks, which later generates a steady income. People collect the initial cost of travelling and sustenance for the first few days, before getting a 'no objection' certificate to enter the job market, by selling gold assets and by borrowing from relatives. Income from the job at the destination is seen to be so certain that they expect to pay back the lone, within a short period of time. It is, therefore, apparent that 'risk aversion' is a major consideration behind a decision to migrate for these families, engaged in fishing, in Kerala.

3.2.b. *Relative Deprivation as a Reason to Migrate:*

The attribute of the labour market that the neoclassical theories fail to recognise is that the labourers have their own feelings and independent will. Supply of labour is sensitive to factors other than wages. People often engage in inter-personal income comparisons with a reference group. These comparisons generate psychological costs or benefits, i.e. feeling of relative deprivation or satisfaction.

The contention of Stark (1984) is two fold. Firstly, when a person's income is given her feeling of deprivation or satisfaction is an income statistic, based on some reference group, i.e. a statistic based on income of others, rather than her own. Secondly, migration can be undertaken in order to improve the person's position, in terms of such a statistic. A brief description of the 'relative deprivation' hypothesis would be helpful to understand the contention.

Let us assume a continuous income distribution function, where each income unit can be represented by an income range, $[x, x+\Delta x]$ where $\Delta x \to 0$. Let, *F(x)* be the cumulative distribution function, of a village. Therefore, 1 – *F(x)* is the proportion of households, whose income is higher than x. By hypothesis, the feeling of deprivation,

from not being in the income range $[x, x+\Delta x]$, is represented by the deprivation function, $g[1 - F(x)]$ where, $g' > 0$ and $g(0) = 0$ i.e. an household with income x is deprived of all units of income above x. Therefore, for household i, whose income is y_i, the relative deprivation is given by,

$$RD^i = \int_{y_i}^{y_h} g[1 - F(x)]dx \qquad (3.2.1)$$

where, y_h is the highest income in the village.

Subject to some algebraic simplifications and manipulations, the expression on the right hand side of the above equation can be decomposed into the product of 'mean excess income' of households, richer than the household i, and the proportion of households in the village that are richer than the household i. If all rankings are kept intact, any increase in the income of any household, richer than the household i, will increase the relative deprivation of household i.

Let the utility function of the i^{th} household be given by, $U^i = U(RD^i)$, such that, $U' < 0$. Now according to the 'relative deprivation hypothesis', migration will be observed if, $U(RD_1^i) > U(RD_0^i)$, where, RD_1^i is the relative deprivation of the household i, associated with migration and RD_0^i is the relative deprivation of the household i, in absence of migration. In this sense migration may be reduced by making rural income more equitable, rather than by reducing the rural-urban wage differential.

The relative deprivation hypothesis, discussed so far, assumes that the reference group, which the migrant compares herself with, remains same before and after migration. But there is always a chance that the migrant or her household would change the reference group. If it substitutes its reference group of village community by the

community of the destination, which would surely be a wealthier community, then it may fail to reduce its relative deprivation, even if its income, relative to that of the village community, increases. So, there is a 'benefit' associated with non-substitution of reference group, for the same rise in income level. Stark, in view of this 'benefit', assumes that an increased income, with a consistent reference group is preferred to an increased income, with a changing reference group. This assumption seems reasonable because, a larger part of the family does not migrate and remain in the village. This assumption of non-substitution of reference group is better suited in case of international migration, than in case of internal migration. This is evident from the fact that many migrant communities do not prefer to assimilate socially with the community of the host country and this is especially true for migrants coming from rural origin.[3] If the 'benefit' of non-substitution of reference group is higher than the 'cost' of international migration, such migration is preferred to intra-country rural-urban migration. International migration to an entirely different social and cultural milieu can carry with it an in-built protection against such reference group substitution. A loose reference to and a sharp dissociation with the host community are more likely in that case. There occurs a kind of 'discontinuity' in the process of reference group substitution if the individual migrates internationally. This 'discontinuity' is stronger for repetitive and temporary migration than for permanent and once and for all migration. It is, in fact, likely that the migrants consciously choose the destination, so as to ensure estrangement and detachment, in order to guard against unwarranted orientation to that community. They fear that such uncalled for orientation would assign negative effects of a changing reference group, which may outweigh the positive effects of improving their position, in terms of their original reference group.

[3] See Piore (1979) for a detailed discussion on the relative preferences of the migrant communities, in West Europe, for assimilation and non-assimilation with the host community.

Stark (1984a) pointed to some interesting implications that follow from the 'relative deprivation hypothesis'. There are certain fallout of the benefit from non-substitution of reference group, for a given level of rise in income, associated to migration with a motive of reducing relative deprivation.

Firstly, migrant workers are not receptive to the culturisation process, undertaken by the host country. One of the reasons for this is that non-substitution of reference group gives a positive benefit to the migrant family, even when the family's position in the income strata of the host community is lower than its position in the income strata of the original community. We have explained this above. This is seen to be true for the 'guest workers' of West Europe or the Italian families settled in the United States.

Secondly, some migrant receiving nations also prefer migrants, culturally and socially dissimilar to the host community as against those who are culturally similar, even if the later, with equivalent skill, are easily available. The reason is as follows. An individual, migrated to a relatively affluent country, often generates an enhanced sense of relative deprivation if she substitutes the reference group smoothly and makes the host community her reference group. This, in turn, threatens the political order of the host nation. But, as we have discussed earlier, smooth substitution is less probable for a migrant coming from an entirely different social and cultural milieu. It is evident from the fact that, the oil rich nations of the Gulf prefer South Asian migrants compared to the migrants from the poorer nations of the Arabian Peninsula.

Stark and Tailor (1989), empirically supports the '*relative deprivation hypothesis*', on basis of data collected from rural Mexican households in the year 1983. The exception occurs only at the lower end of the village income strata. This happens because, at incomes near the subsistence level relative-income considerations are less important compared to the concern for mere survival. In addition, in absence of smoothly

functioning credit market, which is a characteristic of the rural economy in underdeveloped economies, households at very low levels of income may not be able to afford to migrate, especially when migration is costly and the initial risk is high.

Stark and Tailor (1991) expanded their previous work by addressing the role of 'absolute income differential' as against 'relative deprivation reduction incentives', for internal and international migration in LDCs. They took into account continuities across some labour markets and discontinuities across others. The results show that, if variables like age, sex, educational qualification and work experience can be controlled for absolute income, then 'relative deprivation' have a negative impact on internal migration through its direct positive effects on international migration.

The 'new economics' of labour migration, in these two aspects, i.e. '*relative deprivation*' and '*risk aversion*' as reasons for migration, incorporates some important features. Firstly, the 'new economics' emphasises on the fact that the decision to migrate is not taken by the migrant herself. The family's utility function is taken as the objective function of the optimisation problem. So the family becomes the decision-making agent. In many other theories and estimations, the head of the family is shown to be the decision-maker. However, in those theories, the head of the family is the migrant herself and the family influences the decision only by its size. Larger the family size, larger is the cost of migration in form of difficulty in withdrawing from origin and renegotiating at the destination.[4] The cost is even greater if the spouse is working.[5] Thus, larger the family size, less is the benefit from migration, net of migration cost. The 'new economics', however, points out that, often the migrant herself is not the decision-maker. Rather, her family takes the decision on her part. Secondly, wage differential is not necessarily the

[4] Sandefur and Scott, 1981.

[5] Mincer, 1978.

only reason to migrate. Several other conditions like absence of a steady income stream or low income of the family, relative to others in the village, may be important conditions responsible for an agent's decision to migrate. Thirdly, international migration would not necessarily stop even if wage differentials, across countries, were eliminated. Incentives for migration may continue to exist if other markets within sending countries, say, the markets for credit or insurance, are absent or imperfect.

These two models of '*relative deprivation*' and '*risk aversion*' are primarily models of rural-urban migration, which can be extended to the arena of an international migration, with the assumption of discontinuity in the labour markets of two countries. In the case of '*risk diversification*', the discontinuity exists because of the independence of the urban sector of one country from the rural sector of another. In the '*relative deprivation hypothesis*', the discontinuity is explained in terms of reference group substitution. In case of international migration, it is not possible for a migrant to substitute her reference group because of cultural and social dissimilarity between the migrant's own community and the host community.

3.2.c. *Decision to Migrate in a Situation of Asymmetric Information:*

The new economics offers another explanation, for a decision to migrate internationally, in terms of information asymmetry between the labour markets of origins and those of destinations. We have noted earlier that this hypothesis, termed as the '*Asymmetric Information Hypothesis*', is distinct from the earlier two hypotheses in three ways. Firstly, the decision to migrate is primarily of the migrant herself. Secondly, the migration considered is not necessarily of the rural-urban type. Thirdly, the decision to migrate is determined solely by economic priorities of higher income, unlike the earlier two. This hypothesis attempts to explain how an asymmetry in information flows,

between labour markets of two different countries, affects the wage differential and consequently the prospective migrant's decision. The information that this hypothesis is concerned about is the productivity or the skill level of the migrant worker.

Stark and Katz (1986) examines the decision of individuals, who choose to alter their place of work, when the information regarding their skills is less in the new work-place compared to the old one. Altering the place of employment is viable if the individual gets a higher wage in the new place of employment, net of migration and signalling costs. The model examines how a discontinuity in the flow of information, regarding the skill level of the migrant, from the source country to the destination, affects the decision to migrate.

It is assumed that an employer in the source country has perfect information about the skill level of a particular employee. However, an employer in the destination country has less information regarding the migrant employee. It is further assumed that the employer in the receiving country is 'risk neutral' i.e. in absence of perfect knowledge about the skill level and productivity of the employee, she chooses to pay the migrant a wage that matches the average productivity of the migrant workers. If the production functions are linear in skill-level, average product equals marginal product. In such a case, paying a wage equal to the average product is competitive, and hence the employers do not suffer from the incompleteness of information about the skill-level of each of the migrants. Wages in the destination country are generally higher than that in the source country, for every level of skill. A migrant, however, incurs some fixed cost, c, to migrate and some fixed cost, s, to signal her skill-level to the employers of the destination country. The prospective migrant calculates her benefit, from migration, by wages net of this fixed cost ($c + s$).

Stark and Katz considered migration from a poor, developing country to a rich, developed country. The authors discussed two situations to compare the case of asymmetric information, where the employers in the destination country have incomplete information regarding the skill level of migrant workers, with the case of symmetric and complete information. In each of the situations, the case of asymmetric information was discussed both with and without signalling cost.

- In *situation 1*, wages in the poor (source) country increases at a higher rate, with increase in skill, compared to the rich (destination) country.
- In *situation 2*, wages in the poor (source) country increases in a lower rate, with increase in skill, compared to the rich (destination) country.

Let, the wages in the poor (source) country are given by, $w_p(A) = p_0 + p.A$ (3.2.2)

and, those in the rich (destination)country are given by, $w_r(A) = r_0 + r.A$ (3.2.3)

where, A is the skill level, $A \approx$ Uniform [0, 1],

p_0 and r_0 are constants, giving the wages for workers with no skill,

and, p and r are the skill coefficients of the two wages.

First let us consider the *situation 1*. In this situation, $w'_p(A) > w'_r(A)$. In the symmetric and complete information case, the migrant workers get $w_r(A) - c$, in the destination country, as compared to, $w_p(A)$ in the home country, where c is the cost of migration. As shown in figure 3.1.a below, $\forall\ A \geq A_1$, $w_p(A) \geq w_r(A) - c$. Therefore, only the workers, with skill level less than A_1, would migrate.

Wages in the poor country may increase at a higher rate, with rise in skill level, than that in the rich country, because of progressive taxation or diminishing marginal

returns to skill level, in the rich country, or something else. In such a situation the wage gap is larger between the two countries, for the low skilled workers than the high skilled ones. Since the wage incentive, net of migration cost, is less for the high skilled workers, the relative attraction to the rich country declines as the worker's skill level rises. Therefore, in such a situation, only the low skilled workers migrate.

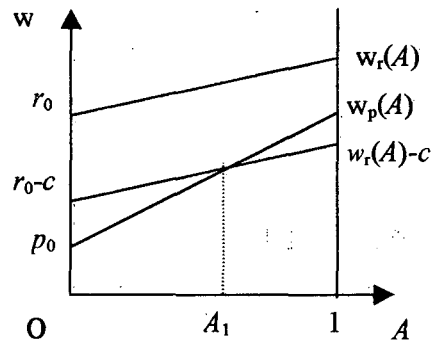

Figure 3.1.a.

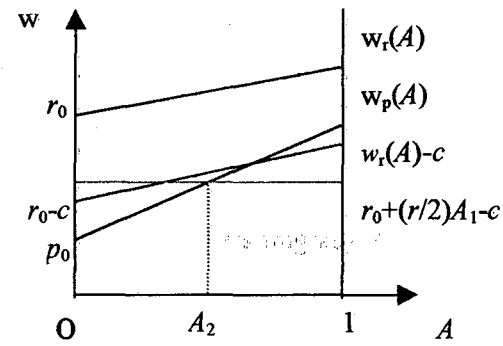

Figure 3.1.b.

In the asymmetric information case, in absence of signalling, the wage incentive for the high skilled workers is even lesser. In this case, the 'risk neutral' employers in the rich (destination) country pay wages according to the average productivity of the migrant group. Since, in this situation, the high skilled workers get a better wage in the poor (source) country they do not migrate. Only the workers with skill level less than A_1 are expected to migrate. Therefore, the employers in the destination country would offer a wage given by,

$$\bar{w} = \frac{1}{A_1}\int_0^{A_1}(r_0 + r.A)dA$$

$$= r_0 + \frac{r}{2}A_1 \qquad (3.2.4)$$

Therefore, only the workers, for whom $(r_0 + \frac{r}{2}A_1 - c) > w_p(A)$, would migrate. As seen from figure 3.1.b above, $(r_0 + \frac{r}{2}A_1 - c) \leq w_p(A) \ \forall A \geq A_2$. So, only the workers with skill level below A_2 have incentive to migrate. To be precise, workers, with productivity higher than the average product of the migrant group, will decide not to migrate and those with productivity lower than it will have incentives to migrate. In the presence of signalling, workers are able to signal their skill level to the employers abroad and thereby, get wages according to their skill level. However, they have to incur a signalling cost, s. Therefore, the workers migrate iff, $(w_r(A) - c - s) \geq w_p(A)$. So the existence of signalling mechanism may or may not leave the pattern of migration undisturbed, depending on the magnitude of the signalling cost.

Now, let us consider the *situation 2*, i.e. $w'_p(A) < w'_r(A)$.

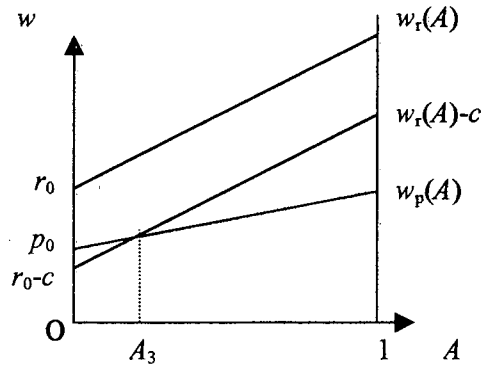

Figure 3.2.a

In the symmetric and complete information case, as in the previous situation, the workers would migrate if $(w_r(A) - c) > w_p(A)$. Katz and Stark assumed that $p_0 > r_0 - c$, i.e. wage in the rich (destination) country, net of migration cost, for the workers with skill level zero, is smaller than that in the poor (source) country. However,

given that the wages in the rich (destination) country rise at a higher rate, with rise in skill level, compared to the poor (source) country, wages, net of migration cost, in the destination country, may be larger than that in the source country, for workers with sufficiently high level of skill. As shown in figure 3.2.a above, $\forall\ A > A_3$ the condition that $(w_r(A) - c) > w_p(A)$ holds. Therefore, only the workers with skill level greater than A_3 would migrate. So, in the case of symmetric information, in this situation, only high-skilled workers have incentives to migrate.

In the asymmetric information case, in absence of signalling, the employers in the rich (destination) country offer a wage equivalent to the average productivity of the migrant group. As we have just noted, in the case of symmetric and complete information, the workers with skill level less than A_3 do not migrate. However, in case of asymmetric information, they can do so under the cover of the high skilled group. As a result, the migrant group consists of workers of all skill levels, across the skill spectrum. The employers in the destination country would, therefore, offer a wage given by,

$$\tilde{w} = \int_0^1 (r_0 + rA)dA$$

$$= r_0 + \frac{r}{2} \qquad (3.2.5)$$

The migration of the low skilled workers pulls down the average productivity, and hence, the pooled wage of the migrant group. As a result, the workers with skill level more than A_3, who would have certainly migrated in the symmetric and complete information case, may not migrate in the case of asymmetric information, if the pooled wage is too low. Katz and Stark discussed the case of asymmetric information, in the *situation 2*, under two conditions.

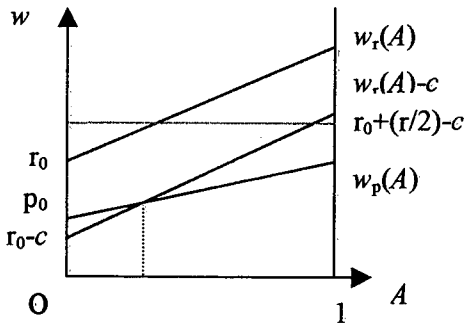

Figure 3.3.a

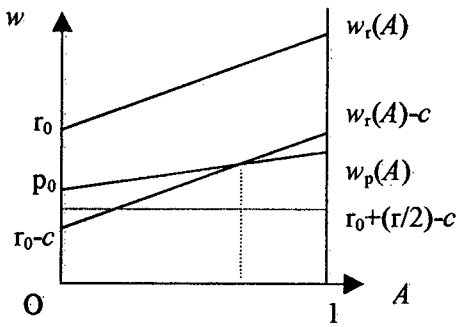

Figure 3.3.b

Firstly, if the pooled wage, net of migration cost, in the rich (destination) country, is greater than the wage of the workers with skill level 1, in the poor (source) country, i.e.

$$r_0 + \frac{r}{2} - c > p_0 + p \tag{3.2.6}$$

then, as shown in figure 3.3.a, every migrant worker get a larger wage in the rich (destination) country, compared to that in the poor (source) country. Therefore, under the above condition, everybody would migrate.

Secondly, if the pooled wage, net of migration cost, in the rich (destination) country, is less than the wage of the workers with skill level 1, in the poor (source) country, i.e.

$$r_0 + \frac{r}{2} - c \leq p_0 + p \tag{3.2.7}$$

then, the highest skilled workers do not gain by migrating. The circumstance is described in figure 3.3.b. Suppose, the workers up to skill level A^{**} migrate, where, A^{**} is close to but less than 1. The pooled wage, net of migration cost, is given by, $(r_0 + \frac{r}{2}A^{**} - c)$.

Since the workers upto skill level A^{**} migrate, it must be the case that,

$$r_0 + \frac{r}{2}A^{**} - c > p_0 + pA^{**}$$

$$\text{Or,} \quad r_0 - c - p_0 + \left(\frac{r}{2} - p\right)A^{**} > 0 \qquad (3.2.8)$$

Since, $A^{**} < 1$, from (3.2.8), we get, $r_0 - c - p_0 + \left(\frac{r}{2} - p\right) > 0$

$$\text{Or, } r_0 + \frac{r}{2} - c > p_0 + p.$$

This contradicts our assumption that (3.2.7) holds. Therefore, workers with skill level A^{**} do not migrate. Similarly, it can be shown that no worker migrate at all, when the pooled wage, net of migration cost, in the rich (destination) country, is less than the wage of the workers with skill level 1, in the poor (source) country. So, in the *situation 2*, in case of asymmetric information, either all workers migrate, or none of them migrates. In presence of signalling mechanism, only those workers would migrate, for whom, $(w_r(A) - c - s) > w_p(A)$.

The model constructed by Stark and Katz is subject to certain criticisms. Firstly, in this model, they assumed that skill is distributed in the domain [0,1] and wages are a mapping from this domain to the real line. This assumption does not hold simultaneously for more than one profession. For different professions, the ranges of wages are different. In most countries, the labour market is segmented and wages are not standardised across professions. Secondly, the assumption that migrant workers are paid the average product of the migrant group as a whole may holds for some specified profession. But it is unrealistic to assume that, for the migrant group as a whole, the average product is paid as wage.

A similar exposition can be found in Kwok and Leland (1982), that explains the 'brain drain' from LDCs to the US and other developed countries. Highly educated persons, who migrate from a LDC, get some training in the DC that enriches her skill. It is often found that, such migrants do not return to their home country. The explanation is given in terms of asymmetric information. A foreign trained individual of a developing country does not return to her home country because the employers in the home country have imperfect information about her skill, and offer a wage that is equal to the average productivity of the 'return migrants', as a group. Whereas, the employers in the DC, where the skills were acquired, have better information about the worker's productivity and hence offer an equivalent wage. Therefore, the most productive workers prefer not to return and this generates the phenomenon of 'brain drain'.

After all these discussions about the 'new economics' of labour migration, we come to a conclusion that wage differentials constitute a necessary, but not sufficient, condition for international migration. Despite facing positive inter-country wage differentials, a large majority of the work force, world wide, does not migrate and thus the explanatory power of the wage-gap, as a pivotal variable, is limited. The human capital approach to this issue, advocated by the 'new economics', has given additional dimension to the wage-gap theory, on the cost side, and thereby, extended its explanatory power by transforming it into a net wage-gap theory.

'New economics' provides a better explanation of the observed reality. Firstly, apart from acknowledging the existence of wage-gap, as a factor influencing the decisions to migrate, it incorporates the social entities prevailing in a developing country, which influences an individual's decision to migrate. Secondly, it provides a better explanation for an individual's decision to migrate internationally, rather than internally. The neoclassical theory explains both internal and international migration in terms of

prevailing wage-gap and it differentiates between the two only in terms of degree of incentives, provided by relative wage-gaps. The 'new economics', however, considers the socio-economic factors, prevailing in a developing country, which influence an individual to decide to migrate internationally, rather than internally. Thirdly, neoclassical theory fails to explain why an individual migrates and stays back in the destination, even when the prevailing wage-gap is not significant. The 'new economics' provides an explanation in terms of the '*risk aversion hypothesis*', according to which, an individual may migrate if she can earn a steady income at the destination, despite the fact that the wage-gap is insignificant.

The 'new economics' attempts to identify 'new' economic variables, which reward migrants in a manner, clearly distinguishable from the 'wage differential'. Each one of these variables, in addition to a positive inter-country wage differential, may account for migration by some workers and non-migration by others.

3.3. Decision to Migrate in a Liberalised Trade Regime:

In this section, our aim will be to explore, how the constraints and incentives to migrate change with liberalisation of commodity trade. The literature that we will present in this section introduces a new aspect of the relation between trade and labour movement. There have been theoretical works regarding the relation between trade and migration, where trade is based, either on differences in production technology or on distortions in the commodity and factor markets (e.g. Markusen, 1983 and Wong, 1983). But all these theories place migration as a factor, affecting the value of trade and welfare level. The literature that we choose to present explores the role of trade in generating international labour movements.

The discussion opens with the typical 'Heckscher-Ohlin' assumptions, where factor price is positively related to the commodity price. An increase in demand for the commodity creates increased demand for the factors, used in production of that commodity. As a consequence the relative price of the factor, used intensively in production of that commodity, rises. High return on that factor (say, labour) acts as an incentive for the owner (worker) of that factor to move towards that sector, which has created larger derived demand for that factor.

Trade causes each country to specialise in the production of that commodity, which intensively uses the factor abundant in that country. A labour abundant country specialises in the labour intensive commodity (say, X). As a result, demand for labour increases, relative to capital, in that country which in turn increases the relative price of labour. This rise in wage reduces the international wage differential and thereby, reduces the incentives to migrate internationally. At the same time, it creates incentives for workers to move towards the region where the X sector is located. Therefore, workers in a labour abundant country migrate internally in a liberalised trade regime.

The above theorisation is based on the following assumptions:

1. Trade occurs on the basis of factor proportions.
2. Net wage differential is the only reason for migration.
3. Labour is perfectly mobile within countries, but perfectly immobile across international borders.
4. Labourers are homogenous.

We will stick to the first two assumptions in the following discussion.

However, relaxing the third assumption, i.e. allowing for labour mobility across borders, we can examine, what affects the incentives for workers to migrate

internationally. The traditional trade theories, based on 'Heckscher-Ohlin' assumptions, claim that trade liberalisation reduces the incentives for international migration by reducing international wage-differential. With conviction in this type of theorisation, trade was liberalised in Mexico and it was integrated into the NAFTA, in order to reduce the immigration flows into the USA. 'European Union', with similar belief, saw trade liberalisation in East Europe and North Africa as a way of reducing immigration into West Europe. It was thought that trade liberalisation in a poor, labour abundant country will reduce emigration from that country to the rich, capital abundant countries. But figures show that, between January 1994 and January 1995, Mexican immigration into the US had doubled.[6]

Lopez and Schiff (1998), attempts to explain this unexpected result, with some additional assumption over the 'Heckscher-Ohlin' ones. Their assumptions are as follows:

1. Labourers are not homogenous; they can be grouped as either skilled or unskilled.
2. Labour is mobile across international borders.
3. Migration is costly and migrants face financial constraints to meet that cost.

The basic two assumptions of our discussion i.e. (i) trade occurs on the basis of factor endowments, and (ii) net wage differential is the only incentive to migrate, are maintained in Lopez and Schiff (1998).

Migration is assumed to take place from a small, labour abundant country, in the 'South', to a capital abundant country, in the 'North', as a response to the wage differential. When trade is not liberalised, the 'South' protects its capital-intensive industry and the 'North' imposes restriction on import of labour intensive goods from the

[6] Lopez and Schiff, 1998.

'South'. The later results in a lower export price for the 'South' and hence, a lower wage in the 'South'. Under these conditions, trade liberalisation brings in two things.

1. A reduction in the tariff rate imposed by the 'South', on imports of capital intensive goods.
2. A relaxation of restriction in North's imports from the 'South' and hence, a rise in export prices for the 'South'.

Given the usual symmetry and homogeneity conditions, the effects of both (1) and (2), on factor prices in the 'South', are qualitatively the same. (1) will result in a fall in demand for South's capital intensive goods and a rise in the wage-rental ratio in the 'South'. (2), on the other hand will result in a rise in the demand for South's labour intensive goods and hence increase the wage-rental ratio in the 'South'. Whatever be the reason, in both cases, wage-rental ratio in the 'South' goes up.

In this literature, the 'skilled labour' is defined as those having higher productivity, compared to the unskilled ones. In a competitive labour market, wages for skilled labour (w_s) is higher than the wages for unskilled ones (w_u). In a closed-border regime, w_u is so low that it imposes a financial constraint on unskilled workers, to migrate by not allowing them to bear the initial physical cost of migration. However, w_s is high enough, not to pose as a financial constraint, and allows the skilled workers to consider the option of migrating to a developed country. Partial trade liberalisation leads to a narrowing down of wage differential, but not complete elimination of it. A rise in wages, as a result of partial trade liberalisation, helps the low-paid unskilled workers to overcome the financial constraint and migrate to a country, where wages are higher. This reduction in the wage-gap may, however, reduce the incentive to migrate for the high-paid skilled workers. So a partial trade liberalisation may reduce the emigration of high-paid skilled workers from a LDC, and at the same time, may stimulate the emigration of

low-paid unskilled workers. The fact that most of the Mexican immigrants, to the US, are poor and unskilled confirms to this theorisation.

This hypothesis attempts to provide a new perception of the relation between trade and cross-border labour mobility. While earlier theorisation on this relationship predicted that trade and migration are substitutes, this hypothesis predicts that trade and cross-border migration, at least that of poor unskilled labourers, are complements. This hypothesis still holds, in line with earlier theories, that narrowing of wage-gap, as a result of partial trade liberalisation, reduces the incentive or need to migrate. The only difference this makes is that it introduces a financial constraint to migrate, on the poor unskilled labourer, which is relaxed with liberalisation of trade and the consequent move towards factor-price equalisation.

However, this hypothesis is subject to limitations. The most noticeable limitation is that this hypothesis does not apply to a situation where trade, between the origin and the destination, is completely free. Such a situation will result in complete factor price equalisation between countries and there will remain no wage differential to act as incentive for migration.

Moreover, the argument is a little farfetched, especially in explaining the cross border illegal migration between Mexico and the US. Illegal migration itself is risky in that a migrant can be thrown out, as soon as she is caught and her entire financial cost of migration is lost. A poor unskilled worker might not think of migrating illegally across the border, taking the risk of being thrown back, when she has a job that assures her the daily bread. In the US the law does not permit an employer to employ illegal migrants. The probability of getting a job is, therefore, small for an illegal migrant. But if employment in the home country is not stable, the labourer may attempt an illegal

migration. Therefore, the hypothesis discussed above would explain increase in cross-border migration along with trade liberalisation, if the prospective migrant's employment, after trade liberalisation, earns her higher but unstable income.

3.4. Factors that Induce Individual Migrants to Migrate Temporarily:

This section attempts to explain what induces a prospective migrant to choose to migrate temporarily, and not permanently. The literature available, on the factors that influence an individual to migrate temporarily, mostly explain the phenomenon in terms of 'preferences' for temporary migration, rather than in terms of 'constraints' to migrate permanently. We will, first, present some of the available literature that explain temporary migration in terms of 'preferences'. Then we will go on to discuss how 'constraints' operating on permanent migration results in temporary migration of labour.

The first set of literature attempts to answer the following questions. If wage differential between countries is the only incentive to migrate, then why do some persons prefer to migrate temporarily and repetitively? In such cases, wages in the home country seldom goes above that in the destination. Then why do migrants return to their home country, even for a short period of time?

Migrants, when faced with these questions, indicate reasons like climatic preferences, attention towards family members, preferences for their own culture and lifestyle and many other such subjective reasons. J. K. Hill (1987) claims that locational preferences, along with wage differentials, govern the decision to migrate temporarily and repetitively.

On the basis of preferences for location, Hill developed a life-cycle model of migrant behaviour. He starts with a simple model, where the migrant's optimisation

problem is to maximise her life-cycle utility, subject to a financial feasibility. The life-cycle utility depends on the time path of her consumption and her place of employment. Her work effort is assumed to be given; she chooses where to work and not how much to work. It is also assumed that, capital market works perfectly in the sense that lending and borrowing rates of interest are the same. Hence, her financial constraint is that the discounted value of her goods consumption, in the home country as well as in the foreign country, should not exceed the present discounted value of her income, net of travelling cost. It is further assumed that the length of stay both in the home country as well as in the foreign country is the same for all visits. Thus, a solution to this optimisation problem gives the net lifetime income, total time spent in the home country and in the foreign country, and the number of trips made to the foreign country.

Hill points out that, three situations are possible, depending on the weightage of each of the two variables in the life-cycle utility.

1. When the life-cycle utility is independent of locational preferences and depends only on the lifetime net income, the individual will migrate permanently if the lifetime income is higher abroad.
2. When the migrant's objective is to reach a particular level of net lifetime income, but to then spend as much time as possible in the home country, she will spend more time in the foreign labour market, lower is the foreign wage or higher is the travelling cost.
3. If lifetime utility depends on the lifetime income and total time spent in the home country, but not on the number of trips made to the foreign country, then optimal number of trips to the foreign country is one. Multiple trips will generate higher travelling costs and no gain in utility.

Djajic and Milbourne (1988) follows a approach, similar to that of Hill, and estimates the effects of a rise in the wages of home country, in the foreign country and as well in the travelling costs, on the duration of stay in the foreign country.

An increase in the home country wage reduces the international wage differential, and raises the present value of the individual's lifetime earnings for a given length of home stay. Thus an increase in the home country wages enables a migrant to attain optimal consumption program with a shorter stay abroad.

An increase in the foreign wages also increases the present value of migrant's lifetime income, for a given length of foreign stay. But the ultimate effect on the length of foreign stay depends on the 'coefficient of risk aversion' of the individual. A higher foreign income or a higher present value of income will induce the individual to consume more than in proportion if the individual is less risk averse. On the other hand she will consume less than in proportion if she is more risk averse. Thus, for high values of risk aversion the migrant will consume less than in proportion with increase in her present value of income, which results in a reduction in the required length of her foreign stay. The result is reversed if she has a low value of the 'coefficient of risk aversion'.

An increase in the travelling cost lowers the present value of the migrant's net lifetime income. Thus in order to satisfy her intertemporal budget constraint, she must stay in the foreign country for a longer period of time.

Theorising temporary migration in the line of Hill and Djajic-Milbourne, is based on the following assumptions:

1. Workers are individuals with no variance in skill level.
2. Migrants have a stronger preference for consumption in the home country, compared to in foreign country, given the same level of income.

3. Capital markets are functioning perfectly.
4. Cost of moving to a foreign country, in order to become a 'guest worker', is an increasing function of the migrant's age.

The second assumption is quite realistic. The third one is, however, simplifying but not restrictive. It is meant to highlight the role of factors influencing consumption and savings. The last assumption is specific to Djajic and Milbourne (1988). In absence of any advantage of migrating later in her life, this assumption enforces the migrant to seek employment abroad in the beginning of her career and thereby minimise her moving cost.

The first of the assumptions seems unrealistic. It may be possible only for workers with no or a little skill. In recent years, temporary migration is seen to be more prevalent among skilled workers, professionals or otherwise, e.g. skill transients.[7] The treatment of the problem, as done in these models, may differ, if we assume the workers to be skilled and skill level being enhanced by work experience and by place of employment. Working in a developed country, where working condition is better and techniques are more advanced, may raise a worker's skill to a higher level than that would have been achieved by working in a developing country, for the same length of time.

In such a case the incentives for temporary migration could also be modified. In the models discussed above, a positive utility, due to general affinity towards the home country, is achieved by working in the home country and that works as an incentive for temporary migration. If a worker, by working for some length of time in a developed country, returns with a higher level of skill (or productivity), compared to workers who worked for the same length of time in the home country, she expects a higher wage. This

[7] Castles, 1995.

higher wage may not catch up with the foreign wage instantly. But this hike in wage would occur every time she returns from the foreign country. In that case, a migrant worker's incentive to return to her home country is not only a general affinity for the home country, but also the increased wage, relative to her fellow home country workers.

The modifications in assumptions change the individual's optimisation problem. Since these assumptions are closer to the reality, it is worth taking them into account, in solving the optimisation problem of a temporary migrant. It would be interesting to investigate the effects of these modifications in assumptions, on the optimal number of visits to the foreign country and on the optimal length of stay in the home country and abroad.

In the internal labour markets of large multinational corporations, temporary migration among 'skill transients' is a common phenomenon. Apart from the fact that these migrations are mandatory in the internal labour markets of the corporations, there remain incentives for the professionals for such temporary migrations. The incentives take the form of career opportunities of promotion to a higher post or increasing future by getting trained at a particular subsidiary of the corporation or etc.

The explanation for temporary migration that these literature provide are applicable to the temporary migration of high-skilled professionals, who can choose to stay in the home country or abroad according to their preferences, in view of the demand for their labour, they enjoy in both places.

However, this 'locational preference' hypothesis does not explain the experience of the 'guest workers' in the West European nations, or that of the 'contract workers' in the Middle East. For these workers, temporary migration is not a matter of preference.

Rather, it is the legal restriction that is imposed by the receiving countries, on intended permanent migration, that enforces these migrants to migrate temporarily.

The low-skilled 'guest workers' in West Europe, who emigrate from the less developed economies of South and East Europe, and those migrating to the Middle East from South and Southeast Asia, are poor. Thus, a stable and higher income is the foremost consideration behind any decision to migrate. Therefore, they would naturally choose to migrate permanently, provided that the law of the destination country allows them to settle there with their family and to assimilate in the society of that country. But the immigration laws, in both of these two destinations, were specifically restrictive towards assimilation of the migrants in their society, and did not allow a migrant worker to settle permanently. The duration of stay in the destination, for these workers, were fixed by the length of contracts, and it could be extended only if the worker could manage to acquire a second contract.

Therefore, only incentives or locational preferences can not explain temporary migration of the 'contract workers' in the Gulf or the 'guest workers' in West Europe. Temporary migration is many often a function of the legal restriction on the duration of stay imposed by the receiving country. Such temporary migrations should be explained in terms of constraints, rather than incentives or preferences. In the theorisation presented above, the constraint to the optimisation problem was financial. It would be a useful exercise to incorporate legal restrictions, on the maximum length of stay, as one of the constraints to the optimisation problem.

Concluding Remarks:

The theories discussed in this chapter were developed to understand the process of individual decision-making that motivates an individual to migrate internationally, given the economic environment prevailing in the migrant's home country, as well as in her destination. All these theories consider the prevalence of wage-gap to be an important factor, influencing the decision to migrate. Both the neoclassical theories and the set of theories, known as 'new economics' of international migration, agree on this point. However, 'new economics' consider certain other pivotal variables, which influence individual decision to migrate, given the socio-economic ambience of the agent.

The importance of wage-gap as an incentive to migrate was as well apparent in the other theories discussed in this chapter. 'Partially' liberalised trade regime sustains a positive wage gap, though at a diminished level, and at the same time relaxes the financial constraint to migrate for the subsistence wage earners. The literature reviewed to explain temporary migration hold the wage-gap responsible for an individual's decision to migrate, at all, and locational preference for home, for her decision to migrate temporarily. However, most real world experiences do not entirely confirm to this hypothesis.

What is common to the literature reviewed in this chapter is that all of them consider higher or stable income as the primary incentive to migrate, and neither of them explicitly incorporates the demand side into analysis.

Part Two

Consequences of International Migration for a Labour Exporting Country

Chapter 4

Remittances from International Migration

Remittances are the portion of overseas earnings that the migrants send home or bring home on their return. They are a source of foreign exchange to the labour-exporting country. As distinct from other sources of foreign exchange, such as foreign aids and borrowings, remittances are non-repatriable on one hand; on the other, they are essentially private monies belonging to the receiving households, when transformed in the form of domestic currency. Consequently, the effects of inflow of remittances, on the national economy, the regional economy and on the household that receives them, are unique. At the same time, like all other resources, if remittances can be productively used it can supplement the overall developmental process of a labour-exporting country.

The developmental value of remittances, for the labour-exporting country, depends on the magnitude of its value, and on how productively the receiving households use it. The objective of this chapter is to study the developmental value of remittances, with a special reference to the Indian economy. For that purpose we have chosen to divide our discussion into four parts that discuss the factors determining the value of remittances, its uses and impact on the regional economy where emigration is frequent, its impact on the national economy, and finally, the policy issues in relation to remittances.

In this chapter our focus will be on remittances, with a special reference to the Indian economy. There are other sources of foreign exchange, associated with international migration, such as the deposits held by non-residents, which are essentially repatriable in nature. We shall limit ourselves to the discussion of remittances and the issues related to non-

resident deposits or any other financial flows associated with international migration will not be included in our discussion.

The chapter will be divided into four separate sections. Section 4.1 will analyse the factors that affect the value of remittances and present evidences from India and other labour-exporting countries. Section 4.2 will discuss how the receiving households and the corresponding impact on the regional economy use remittances. The macroeconomic impact of remittances will be discussed in section 4.3. In section 4.4, policy issues to attract remittances and those to influence its use will be our subject of discussion.

4.1 Factors Determining the Value of Remittances:

Before jumping into the discussion about factors determining value of remittances it would be worthwhile to define what we exactly mean by the value of remittances. By 'value of remittances' we mean that part of remittances, which is recorded in the balance of payments. It should be noted that only a part of remittances into a country that receives it is recorded in the balance of payments.

To identify which part of the remittances is recorded it is needful to inform the reader about the alternative mechanisms of remittance inflow, which can be broadly classified into two categories, the official and unofficial channels.

The official channel, which is most prevalent among the alternative transfer mechanisms, is that of transferring through the Central Banks or commercial banks. The transfer, initiated through a commercial bank, in the country of employment, is usually done in a 'hard currency', say, US dollar, and it is converted to the domestic currency by the Central Bank, for deposits in the migrant's account in some commercial bank in the home country. The Central Bank keeps the foreign currency and it is recorded as 'receipt' on the

'balance of payments'. These are, generally, the only transactions, regarding private transfer payments, which are reflected in the 'balance of payments' statistics. Another official channel of transfer is prevalent. This channel of transfer of remittances through corporations is particularly significant in countries where the governments are actively involved in labour recruitment and contracting processes.

The unofficial mechanisms are transfer of cash through 'postal orders', foreign corporate employers, private moneychangers or other agents. Migrants also carry back cash via various mechanisms during their visits or repatriate through friends or trusted agents. Transfers through private agents do not necessarily mean that they will not flow through the 'balance of payments'. The agents themselves may use official banking systems. So, the 'balance of payments' includes private transfers made through the Central Bank and those made by agents through, through the official channels.

Therefore the entire amount of remittances that flow through the official channel and the fraction of the amount through the unofficial channels that flow through the official banking system is recorded in the BOP, and we will refer to this recorded part when we talk about the 'value of remittances'.

This section investigates the factors that affect the value of remittances a labour-exporting country receives in exchange of labour outflows. We divide the discussion into two sub-sections. The first sub-section explores the economic factors that can plausibly operate behind any increase or decrease in the value of remittances. The discussion is supported by evidences of various labour-exporting countries around the world in subsection 4.1.b. In the final sub-section of this section we will attempt to explain the rise and fall in value of remittances that India received in the period between 1950s and 1990s.

4.1.a *Economic factors that determine the value of remittances:*

The number of migrants departing the country or living outside the country at a point of time is recognised as the most important factor that influences the value of remittances. Large variations in the value of remittances are often explained by this factor. Nevertheless, for most countries, the variations in the number of migrants departing, are considerably less than the variations in the value of remittances. This suggests that the number of migrants itself is not sufficient to determine the value of remittances, though this factor has been widely recognised as one of the most important determinant.

The variations in value of remittances can be explained, other than by the number of migrants, in terms of the migrant's decision on *whether to remit, how much to remit* and *how to remit.* A migrants decision, in favour of remitting, and to remit larger amounts increases the total amount of remittances; and a choice of the official channels as a way of remitting raises the value of remittances recorded in the balance of payments. Each of these decisions depends, in turn on a number of factors, which are discussed below.

A decision in favour of sending remittances is frequently a function of the presence of the migrant's family members at the home country. If the migrant settles in the host country with family, it is reasonable for him not to remit. The immigration laws in the host country have significant role to play in this regard. More conducive the laws to settlement and adaptation, greater is the probability that migrants will settle down in the host country with their family and hence less is the pressure on the migrant to send remittances. To the extent immigration policies are conducive to settlement, compulsion to remit diminishes with the ageing of the migration stream. Older migrant communities are less likely to remit.

Economic status of the family members back home and the presence of alternative sources of income for the family are likely to affect the amount of remittances. Migrants from

the agricultural households are, however, less likely to remit, because of the greater possibility of meeting basic needs from the land.

Economic status of the migrant at the host country is an equally responsible factor that dictates the amount a migrant would remit. Higher income at the host country may leave higher amounts to remit. But then if the migrant is from a financially well off background he may have less compulsion to remit. For migrants who earn higher income abroad, who are more aware of alternative uses of their money and are more sensitive to short term variations of exchange rates, relative interest rates etc. than others, propensity to remit varies with time and depends on the value of this variables, so as to get high financial gain by remitting.

Other than these structural factors operating at the background that the migrant comes from and the place where he settles, there are some factors operating at the money market that influence the value of remittances. Some of these factors are discussed below.

Official exchange rate of the home currency vis-à-vis some hard currency is an important factor in the migrants decision about whether and how to remit. A hard currency (say, US dollar or pound sterling) is always preferred as a 'store of value', because of its low probability of devaluation. At times migrants keep their savings in US dollar or pound sterling accounts, if the value of their home currency, vis-à-vis these hard currencies, fluctuate. Lower the value of the home currency, higher is the possibility to remit, provided the exchange rate is not fluctuating.

The potential difference between the official and the free market exchange rate is also recognised as an influential factor affecting the flow of remittances through official channels, and thereby affecting the recorded value of remittances. Currency over valuation can cause a substantial reduction in the amount of remittances through the official channels. Chandravarker (1980) has emphasised the importance of difference between official and free

market exchange rates. He writes, "the most important macroeconomic requisite for inducing remittances, through official channels, is a realistic unitary rate of exchange for the currency of the labour-exporting country... Remittances are notably sensitive to any indications of currency overvaluation and are prone to slow down in such cases, leading to widespread resort to unofficial channels to transfer funds." In an otherwise controlled foreign exchange regime in labour-exporting countries deliberate policy making to facilitate remittance inflows has often taken the form of giving premiums over the official rate to non-residents, so that the difference between the official and the free market exchange rate is abated.

4.1.b *Evidences from various labour-exporting countries:*

Here we shall present some facts about the experiences of some labour-exporting countries in support of the above discussion. No attempt is made here to explain the variations in remittance flows, in any of the countries we will talk about in the next few paragraphs. Such an exercise is beyond the scope of this discussion. Whatever facts will be presented here, are meant only to support the discussion on economic factors determining the value of remittances, presented above.

As the experience of some labour-exporting countries show volume of migratory flows have contributed significantly to the value of remittances. Spurt in the volume of the migration from developing countries of Europe, non-oil producing countries of the Middle East, developing countries of Asia, south and western Africa, and central and south America in the late 1960s, through the 1970s coincided with the spurt in value of remittances into these countries in the same period. Russell (1986) writes that the growth in volume of remittances, overtime, has been different for different countries, but there is little question about the overall rising trend throughout the 1970s. For a sample of thirteen labour-exporting countries in the Mediterranean, Middle East and South Asia, Eccvit and Zachariah (1978) calculated,

that remittances increased from US$ 4.6 billion, in 1972, to US$ 8.1 billion, (at current prices) in 1975. Swamy's (1981) aggregation (as cited in Russell, 1986), based on International Monetary Fund (IMF) data on 'balance of payments', for a sample of thirty-two developing countries of Europe, Middle East, Asia, south and western Africa, and central and south America shows that a total of US$ 23 billion was remitted in the year 1978, as compared to US$ 3 in 1968. While these spectacular increase held strong in the 1970s, there has been a general agreement (Birks and Sinclair, 1979, and Swamy, 1981) that in the later part of the period between 1968 and 1978, the rate of growth was slowing down across the board and that the absolute level of remittances began to decline in some countries (Yugoslavia and Korea), as early as in early 1970s.

The importance of presence of family members at home as a factor determining the value of remittances finds support in the following literature. Swamy (1981)[1] found, for a pooled sample of three Mediterranean countries, over a period of eighteen years, that the ratio of females to the total migrant population, for each nationality, had significant negative impact on the volume of remittances to the respective countries. Female migrants are expected to migrate with their families, either as migrant workers taking their family along with or as members of the migrant worker's family. In either case migration of female members signify that family members are not present, back home. So it is likely that migration of female members would reduce value of remittances.

It is likely, as we have seen, if migrants settle in the country of employment, the per capita remittance as well as the value of remittance will go down. Settling in the host country, in turn, is possible if immigration policies are conducive to settlement. European and North American labour policies are more conducive for settling down, than say, that of the labour

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[1] Referred above in the previous page.

importing countries of 'Gulf'. The US 'immigration laws', in fact accept migrants under categories of family reunification, since 1952. Such 'liberal' labour policies, which supports 'chain migration', encouraged the family members of the Indian migrant workers, in the developed countries of Europe and North America, to migrate and 'naturalise'. The migrants, therefore, settle permanently and face little compulsion to remit. 'Gulf' States, on the other hand, do not allow the migrants to assimilate in the society[2]. They issue work and residence permits, for a limited period of time, only to the workers and prohibits their families from migrating. This legislative structure compels immigrant workers, in the 'Gulf', to remit handsome amounts and thereby sustain their families, back home.

Economic status of the migrant at the host country and that of the migrant's family at the home country have played significant role in determining the value of remittances for the labour-exporting countries sending guest-workers to western Europe and to the 'Gulf'. Swamy (1981) found that for Greece, Yugoslavia and Turkey, the number of migrants and their wages explain more than 90% of the variations in remittances flows; the number of workers accounting for most of the variations. For south Asian countries, remittances from 'Gulf' have been much larger in value. For these countries poor economic status of the families of migrants to the 'Gulf' has been responsible for larger remittances from this source.

The importance of minimal difference between official and free market exchange rate in facilitating inflow of remittances has been recognised by many labour-exporting countries. The difference between the two has been minimised by offering a premium rate over the official exchange rate, or by liberalisation of foreign exchange regulations for non-residents. In regimes of officially determined exchange rate a premium rate over the official exchange

[2] See Weiner, 1982 for immigration policies in the 'Gulf' countries.

rate of the domestic currency has been offered by countries, such as Bangladesh and Pakistan. This enabled migrants to achieve a scarcity margin for their savings, which they remit.

The policies of 'mandatory remittances' have been responsible for inflow of remittances in countries like Philippines, Korea, China and many other Mediterranean countries. Filipino and Korean workers, in the Middle East, had to send back 70% and 80% of their earnings, respectively, and the Chinese workers had to send 30% of their earnings to their families and 40% to the Chinese government.[3]

Finally, the experiences of some labour-exporting countries prove that a stable and favourable macroeconomic environment is conducive to flow of remittances and deposits. High rate of inflation, low rate of interest on deposits, and high rate of devaluation of currency, in the home country, discourage the migrants to remit. During the period 1976-1986, Thailand had an annual inflation rate of 7.6%, offered average real interest rate of 4.3% on deposits, and had a devaluation rate of 28.9%. Philippines, during the same period, had an annual inflation rate of 18.3%, offered average real interest rate of 3.9% and had a devaluation rate of 175.7%. Thailand was more successful, than the Philippines in attracting remittances through official channels[4], during this period.

4.1.c *The Indian experience*:

In this sub-section we will try to explain, the variations in value of remittances into India in the period between the 1950s and the 1990s, in terms of the economic factors discussed in the earlier sub-section. Let us first look at the trends in the value of remittances India received in the period mentioned above. We shall divide the entire time period into three

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[3] Russell, 1986.

[4] Saith, A. 1989.

phases. The first phase consisting of the first two decades, 1951/52 to 1970/71 witnessed the spurt of migratory flows to the USA, UK and Canada. The second phase consists of the period between 1971/72 and 1990/91, which includes the period of boom in temporary migration to the Middle East. Explanation of the trends during this part draws heavily upon a literature by Nayyar, (1994). The third or the post liberalisation phase, between 1991/92 and 1997/98, is distinguished from the earlier phases because of the appearance of a new foreign exchange regime as well as a new spurt in the flow of migration to the Middle East.

In the 'balance of payments' statistics of India, remittances are identified as the credits on the accounts of private transfer payments. These aggregates include grants that constitute a very small proportion of the total. Remittances constitute the larger part of it. Any variation in private transfer payments can thus be taken as identical to any variations in remittances.

The trends in the value of remittances during the first phase, 1951/52 to 1970/71 are depicted in Table 4.1. This table shows that between 1951/52 and 1965/66 yearly average value of remittances remained at a constant level and increased almost three fold between

Table 4.1 Private Transfer Payments, 1951/52 - 1970/71 (Annual averages, in Rs. Crores)

years	Private Transfer Payments
1951/52 - 55/56	40
1956/57 - 60/61	40
1961/62 - 65/66	40.8
1966/67 - 70/71	113.7

Source: Nayyar (1982)
Note: Values are in current exchange rates.

1966/67 and 1970/71. This sudden increase in the last five years may have occurred due to the increase in volume of migration to USA, Canada and UK. We have seen in an earlier discussion (in Chapter 2) that number of migrants to USA increased from 582 in 1965 to 2458 in 1966 and 4642 in 1967. For Canada, similar changes occurred in 1965, when number of migrants doubled in reference to the previous year. Among these countries UK registered the largest increment from 2900 in 1962 to 15500 in 1963.

Table 4.2Trends in Remittances, 1971/72 - 1990/91

Year	in $ millions	in Rs. Crores	Year	in $ millions	in Rs. Crores
1971/72		111.8	**1981/82**	2322	2082.9
1972/73	134	104.1	**1982/83**	2514	2430.8
1973/74	182	142.4	**1983/84**	2561	2648.3
1974/75	277	220.2	**1984/85**	2508	2981.9
1975/76	490	423.7	**1985/86**	2219	2715.5
1976/77	698	623.7	**1986/87**	2340	2990.6
1977/78	1071	917.3	**1987/88**	2725	3532.7
1978/79	1151	943.8	**1988/89**	2669	3865.4
1979/80	1817	1472.1	**1989/90**	1790	3823.9
1980/81	2692	2129.7	**1990/91**	2083	3736.7

Source: For data upto 1989/90,Nayyar (1994) and for the year 1990/91, Report on Currency and Finance, RBI.

The trends in the value of remittances during the second phase are presented in Table 4.2. It shows that both the Rupee values and Dollar values of remittance registers a moderate growth between 1971/72 and 1974/75. In the year 1975/76 the value grew twice over the previous year and since then there had been steady growth till 1983/84. Since 1984/85 the growth has been slackening till 1989/90.

An explanation of this trend in the value of remittances can be found in Nayyar (1994). Nayyar attempts to explain the trend in terms of the sources from which India attracts remittances. Table 4.3 presents the value of remittances, from different areas of origin, in the period 1970-71 to 1990-91.[i] (see endnote at the end of this chapter)

A large segment of the increase, from mid-1970s to mid-1980s, was attributable to remittances from the oil exporting countries of the Middle East, which rose sharply from negligible levels, during the early 1970s, to Rs.13 crores in 1975-76, Rs.122 crores in 1980-81 and Rs.171 crores in 1984-85,but stagnated thereafter. (see Table 4.3) From the industrialised countries, there was a steady increase in remittances, beginning in the mid-1970s, with a sudden upward fluctuation in 1988-89, due to rise in remittances from North America. At the same time there was a moderate growth in remittances from the non-oil producing developing countries, since 1975-76.

Table 4.3 Estimated composition of remittances to India by origin, 1970/71 – 1990/91(in Rs. Crore)

Year	North America	Western Europe	Britain and Australia	Middle East and Oil Exporting Countries	Other Developing Countries
1970-71	28.4	11.4	22.3	3.7	14.7
1971-72	31.2	19.4	34.7	5.8	20.7
1972-73	39.1	15.9	27.5	4.6	17.0
1973-74	43.2	18.9	44.2	7.4	28.7
1974-75	67.0	34.9	44.3	25.9	48.1
1975-76	110.5	50.2	62.0	131.6	69.4
1976-77	165.1	66.4	59.0	270.4	62.8
1977-78	138.2	78.6	102.6	486.8	111.1
1978-79	156.6	94.9	101.3	481.3	109.7
1979-80	221.0	119.2	163.1	790.4	178.4
1980-81	210.0	168.4	254.8	1219.4	277.1
1981-82	335.5	186.6	219.5	1097.5	243.8
1982-83	336.3	182.8	249.4	1370.8	291.5
1983-84	387.1	211.9	246.0	1500.0	303.3
1984-85	458.9	222.0	255.0	1714.0	332.0
1985-86	480.3	257.8	322.4	1384.4	266.5
1986-87	532.3	261.7	367.5	1536.8	292.3
1987-88	624.5	370.5	374.0	1805.8	357.9
1988-89	1295.5	394.3	323.6	1546.3	305.7
1989-90	799.8	543.4	348.8	1775.3	356.6
1990-91	864.5	463.3	484.4	1449.9	363.9

Source: Nayyar, 1994.

Note: The method of estimation and the underlying assumptions are explained in the endnote.

The trends in the rupee value of remittances, since 1970, at current exchange rate, may be deceptive because of the move from a system of fixed exchange rate to a regime of

floating exchange rate. Table 4.4 attempts to resolve this problem, by outlining the trends in the foreign exchange values of remittances in terms of US dollar and in terms of SDR.

Table 4.4 shows that the dollar value of remittances, both total value and the value of that from the Middle East, registers a spectacular growth in the second half of 1970s, followed by a stagnation and decline in the 1980s. The stagnation of the dollar value of remittances, after 1980-81, according to Nayyar (1994), was, partly, attributable to the sharp appreciation of the US dollar, vis-à-vis the rupee, until 1984-85, when the appreciation started to slow down. The

Table 4.4 Trends in foreign exchange value of remittances to India (1972/73 – 1990/91)

Year	Total Remittances		Remittances from the Middle East	
	US$ million	SDR million	US$ million	SDR million
1972-73	134	122	6	5
1973-74	182	150	9	8
1974-75	277	228	33	27
1975-76	490	409	152	127
1976-77	698	603	303	261
1977-78	1071	903	569	479
1978-79	1151	905	587	461
1979-80	1817	1397	976	750
1980-81	2692	2093	1542	1198
1981-82	2322	2015	1224	1062
1982-83	2514	2301	1418	1298
1983-84	2561	2421	1451	1371
1984-85	2508	2499	1442	1436
1985-86	2219	2101	1135	1074
1986-87	2340	1936	1203	995
1987-88	2725	2063	1393	1055
1988-89	2669	2007	1068	803
1989-90	2297	1790	1066	831
1990-91	2021	1459	808	583

Source: Nayyar, 1994.

Notes: (a) The rupee values have been converted into US dollars and SDRs using annual average conversion factors.

(b) The figures have been rounded off to the nearest million.

SDR value of remittances, in contrast, registered a continuous growth until 1984-85, both for the total, and until 1985-86, for the remittances from the Middle East. Both flows, however, show a downward trend in the late 1980s. This is attributable, in part, to an actual decline in remittances and in part, to the sharp appreciation of the SDR, vis-à-vis, both the US dollar and the rupee.

The trends in average flow of remittances, per worker, would have been a better indicator of the importance of factors other than the volume of migration on remittances. But, unfortunately, the trend is difficult to trace, in view of absence of reliable time-series data. Nayyar (1994), however, calculates the per capita remittances, from Indian migrants in the Middle East, based on table 4.3 and some data on stocks of the Indians in the Middle East, for some particular years. This calculation, on remittances per capita, from Indian migrants in the Middle East, is represented in Table 4.5.

Table 4.5 Remittances Per-capita from Middle East to India, 1975-76 - 1987-88.

year	Rs.	US $	SDRs
1975-76	4943	571	477
1979-80	15776	1984	497
1983-84	16376	1584	497
1987-88	16476	1271	962

Source: Nayyar, 1994.

Remittances per capita, from the Middle East, were higher than that from the migrants in the industrial countries. In 1980-81, remittances per capita from North America, West Europe, Britain and Australia were Rs. 3145, Rs. 10024 and Rs. 3417 respectively, while that from the Middle East was Rs. 20155.[5] The average income level of the low-skilled migrant workers, in the Middle East, was much lower than that of the high-skilled migrant professionals, in the industrialised countries. Therefore, it is clear that the differences in

[5] Nayyar, 1994.

proportion of income, sent home, by these two sets of migrants, were even greater. Probably the low economic status of the families of migrants to the Middle East had been the predominant factor behind the high proportion of savings remitted by these migrants. The tender age of the migration stream to the 'Gulf' countries is another factor that possibly have contributed to the high per capita savings remitted to the families of the migrants. Less is the age of the migration stream, close is the tie of the migrants to their families back home and higher is the value of remittances each migrant would send home. Besides, the immigration policies in these countries had not been very hospitable or conducive to settlement for the migrants so that it has not been possible for the migrants to settle down in these countries with their families, as has been possible by the migrants to the US or Canada.

The spurt of remittances to India through official channels, between the mid-1970s and the mid-1980s, might have been facilitated, partly, by the linking of the rupee with the pound sterling. The rupee was pegged to the pound sterling, in June 1972, and floated. As the pound floated downward in the international currency market, so did the rupee. There was a steady depreciation in the exchange value of the rupee vis-à-vis the SDR currency basket, as also in the nominal exchange rate, which was particularly pronounced till 1975 and continued throughout the 1970s. Consequently, the overvaluation of the rupee, which has persisted for more than two decades, so that, by 1975, the official exchange rate almost coincided with the market rate. This eliminated the primary incentive to remit through the unofficial exchange brokers and probably reduced the inflow of foreign exchange, via illegal channels.[6] The volume of remittance, from the 'Gulf', squeezed during the later part of the 1980s, because of reduction in migratory flows to this region. However, this cannot explain the associated fall in per capita remittances. Given the unchanged character of migration, it is unlikely that there

[6] Nayyar. 1994.

Table 4.6 Private Transfer Payments, 1990/91 - 1997/98

Year	in $ millions	in Rs. Crores
1990/91	2083	3736.7
1991/92	3798	9418.9
1992/93	3964	11260.8
1993/94	5287	16582.1
1994/95	8112	25474.2
1995/96	8539	28768.4
1996/97	12435	44208.3
1997/98	11875	43929.3

Source: For the years 1993- 94 to 1997-98, *Report on Currency and Finance* (1997-98); for the years 1992-93 *Report on Currency and Finance* (1996-97); for the years 1991-92 *Report on Currency and Finance* (1995-96); for the years 1990-91 *Report on Currency and Finance* (1994-95); ~~for the years 1989-90 and 1988-89~~, ~~*Report on Currency and Finance* (1993-95)~~(RBI)

was a change in income levels or behaviours of the migrants. According to Nayyar, it is possible that an increasing proportion of the remittance flows came through illegal channels, which is, in turn, attributable to the reappearance of divergence between the official exchange rate and the market rate.

The trend in the value of remittances in the *third phase*, 1991/92 to 1997/98 is depicted in Table 4.6. The table shows that both the rupee value and the dollar value of 'private transfer payments' have increased in this period. The increase has been experienced in two distinct phases. The first phase is between 1991/92 and 1993/94, when value of remittances registered a considerable growth compared to the earlier phase. (see Table 4.2). The second phase, between 1993/94 and 1997/98, registered an even sharper increase in the value of remittances. This spurt in the 1990s coincided with two events, one is the increase in volume of migration to the Middle East after the 'Gulf' War, for post ('Gulf') war reconstruction and another is the new exchange rate regime in India that came into existence since 1991. We have noted in chapter 2 that migration to 'Gulf' increased almost two fold in 1992 over what it was in 1991. Rupee was made partly convertible in the current account

since 1991, with the inception of the New Economic Policy. 60% of the total foreign exchange receipts on the current account was allowed to be converted in the market exchange rate and the rest 40% had to be converted in the fixed exchange rate. Moreover, around this period the official exchange rate of rupee was devalued a number of times. All this had narrowed down the difference between official and market values of exchange rate of rupee and this induced migrants to use the official channel to remit, rather than the unofficial channel. The rise in value of remittances in the period between 1990/91 and 1993/94 may be partly attributable to this change in the policy regime for foreign exchange and partly to the increase in migratory flows to the 'Gulf'. Since 1993 rupee was made fully convertible on the current account. This further minimised the difference between the official and market exchange rate of rupee, which may be a reason for another spurt in the value of remittances in 1993/94 and 1994/95. But there had been even sharper increase in the value of remittances in 1996/97. However, we cannot provide explanation for this spurt in the value of remittances with the information available to us on the flow of migration or other variables.

Table 4.7 Private transfer Payments (credits) in India's Balance of Payments, by Region, 1990/91 – 1996/97 (in Rs. Crores)

Year	Sterling Area	Dollar Area	OECD Area	Rest of non-Sterling Area
1990-91	1741.5	910.8	519.5	564.9
1991-92	3555.3	3627.0	946.4	1290.1
1992-93	4033.6	2074.1	1360.3	656.0
1993-94	5963.3	2870.0	5944.0	1216.4
1994-95	13547.5	7355.5	2390.0	2180.8
1995-96	15127.8	8638.5	2856.1	2138.6
1996-97	15305.1	22685.1	3117.9	3100.2

Source: Reserve Bank of India, *Report on Currency and Finance*, annual issues.

It should also be noted that the increase in the value of remittance inflow in this phase (1990s) has been registered from all origins. Table 4.7 shows that from all the areas of origins, namely, the sterling area, the dollar area, the OECD area, and rest of non-sterling area, value of remittances calculated in rupees doubled in 1991/92 over the previous year. A

second jump in the trend had occurred during 1994/95 from the sterling areas, dollar areas and the rest of the non-sterling area and during 1993/94 from the OECD area. Therefore a moderate increase in 1991/92, in remittance inflows into India, compared to the preceding few years and a sharper increase during 1993/94 and 1994/95 has not been specific to any particular region. Hence increase in volume of migratory flows to any particular region might not have significantly contributed to the increase, since 1994/95.

The explanation provided for increase in remittances in the 1990s is an intuitive one. For definite explanations more rigorous research is needed.

4.2 Use of Remittances by the Receiving Households and Its Implications on the Regional Economy:

It is believed by many[7] that remittances which is a source of income for the households that receives them, are used only to meet consumption needs which are mostly import intensive and to buy land properties, the ultimate effect of which is an inflationary pressures on prices of land and other consumer goods. This section presents some evidences from labour-exporting countries in general and from some migration pockets of India (Kerala and Punjab) in particular to examine the extent to which this belief is true. For this purpose we will present some empirical literature, that provide evidences on the expenditure patterns out of remittance receiving households and their effects on the respective regional economies.

4.2.a *Evidences from Labour-exporting countries around the World:*

Chandravarker's review (1980) of the uses of remittances in Yugoslavia, Turkey, Portugal and Yemen Arab Republic shows that a large proportion went into food, clothing

[7] Foe example Piore. 1979.

and other consumer goods and most of the remainder was invested in housing – repair or construction. This pattern of expenditure had an inflationary pull, in the supply constrained economies. In Yugoslavia, there were some investments on agriculture by the remittance-receiving households. But the economy's limited outlet, for productive investment, resulted in an over mechanisation of small farms. In Turkey, in 1970, migrant's savings were being used primarily for housing and a lesser proportion was going to factories and shops. Portugal also showed similar trends, where 38% of remittances were spent on land and housing, 32% on domestic appliances and 24% on children's education, with no investment in industry or trade. At the same time an increasing trend towards banking habit was observed among migrants' households, which is a favourable trend. In Yemen, the trend was towards buying land in urban areas. The secondary effect of inflation, associated with the nature of use of remittances, has manifested itself in the cost of living index, especially in land prices.

Surveying some empirical literature on uses of remittances, in South and Southeast Asian countries, Stahl and Arnold (1986) concluded that, the remittances are primarily spent on day-to-day consumption expenditures, housing, land purchase and debt repayment and only a small proportion of the remittances are directed into investments industry or agriculture. In all the countries surveyed, namely, Bangladesh, India, Pakistan, Philippines and Thailand, expenditure pattern for the remittance-receiving households (RHs) are more or less same. For most of the RHs, in these countries, priority is bestowed on the expenditures on real estate – housing and land purchase. A study on Bangladesh by Ali et el. (1981) shows that, in the RHs spend significantly more on housing, compared to the non-remittance-receiving households (NRHs), in the rural areas. However, the study reveals that, for the urban areas, the trend is opposite. It was found that while the expenditure, out of remittance, on land and housing, for the rural areas, were 57%, the corresponding figure for the urban areas were 42 %. Go et el. (1983) found that, in Philippines, significantly more households

with an overseas worker own residential lands, compared to households without any overseas worker. A study by Gilani et el. (1981) shows that the Pakistani households, receiving remittances from the Middle East, spent substantially less on real estate and construction, compared to their Indian counterparts in Kerala, where 47% of capital expenditure, out of remittance, was estimated[8] to be spent on construction and 27% on real estate.[9] A similar study, conducted by the Ministry of Plan Implementation (MPI), Sri Lanka (1984), shows that 29% of remittances, flowing in to Sri Lanka, is spend on housing, including purchase of residential land. Consumption expenditure is another important use of remittances in these countries. A survey by Pakistan Institute of Public Opinion claims that, in Pakistan, two-third of the remittance earnings went to consumption expenditure. In Sri Lanka, 22% of the remittance income was spent on consumer durables, of which 66% was spent abroad, on items imported by Sri Lanka.[10] The combination of recurrent consumption and expenditure of consumer durables are estimated to account for 50-60% of remittance income. Thailand and Philippines also register similar trends. The estimates of Ali et el. (1981), later modified by Habib (1985), shows that, in Bangladesh, the RHs spent more on luxury items, compared to the NRHs, though the difference was not statistically significant except for a couple of items. In all these countries, expenditures on weddings and other ceremonies, on jewellery and other luxury items, and that on children's education constitute a considerable amount in the expenditure, out of remittances. Debt repayment is also an important item of expenditure, for most migrant workers, because of the cost of migration they have to incur. In addition, remittance income is often used to free a migrant household from other debts and mortgages.

[8] This estimation on Kerala was done by Mathew and Nair (1978).
[9] We would discuss the case of India, with particular reference to Kerala, in a separate sub-section.
[10] Survey conducted by the Ministry of Plan Implementation (MPI), Sri Lanka (1984).

In Bangladesh, rural and urban RHs spent, respectively, 17% and 18% of remittances on debt servicing.[11] The corresponding figure for Sri Lanka is 9.5%.[12]

All these studies reveal that only a small proportion of remittances is invested in industry or agriculture. In the rural areas of Bangladesh, only 9% of the remittances are invested in business and agriculture. However, for the urban remittance receiving households, the corresponding percentage is 18%, which is not a negligible amount.[13] In Pakistan, only 3.3% of remittance earnings are invested in agriculture and 8.2% are invested in industry and commerce.[14] The study by Go et el. (1983) shows that the Filipinos save a significant proportion of their overseas earnings. But, they personally do not invest these savings in industry or agriculture, in general. In fact, the experience is more or less same for the other countries too. Even though the recipients of the remittances themselves do not invest a lot in industry or farm, a significant proportion of the remittances is saved in all these countries. In Bangladesh, the RHs save almost 50% of their income, which is significantly high, compared to the NRHs, who save only 2% of their income.[15]

The experiences of different countries, we have narrated so far, shows that, remittances are generally used for consumption or debt repayment or are invested in real estate. Piore (1979) presented a case study[16] of Jalisco, a small town in Mexico, which depicts a different story. In Jalisco, An extensive textile industry, financed mostly by remittances sent by the Mexican workers, working in the USA, has grown up, almost out of nothing. The industry began when a return migrant investing his savings in a single piece of machinery, which he himself operated. He has been imitated by most of his neighbours, starting first with

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[11] Ali et el. (1981).
[12] MPI, Sri Lanka (1984).
[13] Ali et el. (1981).
[14] Gilani et el. (1981).
[15] Habib (1985).
[16] The study was originally done by Juan Diaz-Canedo (1979).

the proceeds from work in the US and subsequently expanding by ploughing-back the profits into the business itself. The town, which had no industrial activity, and was an exporter of labour, in 1968, became an industrial township, with substantial labour shortage, within a span of ten odd years. So, it can be argued that, even though the experiences of different countries depict that remittances are generally used for consumption, debt repayment, housing and land purchase, and are not significantly invested in industry and agriculture, it is not a universal phenomenon.

4.2.b *The Experience in India – case of Kerala and Punjab:*

Among the international migration pockets of India, empirical literature on this issue of use of remittances, are mostly available for the state of Kerala where the concentration of households, sending workers to the Middle East, is high. Among workers from India, in the 'Gulf', 'Keralaites are the single largest group comprising as much as half of the total number.'[17] Literature on patters of use of remittances by households, sending migrants to the industrialised countries of the West, are available for regions of the state of Punjab, for the Green Revolution period, during which time concentration of migrants to the industrialised countries, especially to the UK was high in Punjab. Literature on the use of remittances by urban households is seldom available. This is possible, as the emigration flows to the industrialised countries or to the Middle East are not concentrated in any urban area and hence their impact on any urban economy is insignificant. Remittances received by urban households from these industrialised nations are used, in the first instance, to service any debt, incurred to finance the cost of migration, and subsequently to support essential consumption,

[17] Nair, 1989.

acquire consumer durables or investment in housing, depending on the income level of the home economy[18].

In villages of Kerala the migrant sending households show an expenditure pattern, which matches the trend as in Portugal or Yemen Arab Republic. Commerce Research Bureau (1978)[19] argues that, due to poverty, the major portion of the remittances to Kerala are used to meet the basic consumption needs of the households. Housing constructions, purchases of assets in form of land or jewellery etc. also feature in the expenditure pattern of remittance receiving households. The average value of assets, of households receiving remittances, is significantly greater than that of rural households of Kerala, in general.

Table 4.8 Percentage of Expenditure on Capital Items in Two Villages in Kerala

Items of Expenditure	Perumathura	Puthukurichi	Combined
Investment in Business	0.4	—	0.3
Investment in livestock	0.3	1.3	0.5
Financing emigration of	6.1	1.0	4.9
Real estate	23.5	38.7	27.2
Construction of buildings	52.9	28.0	46.9
Renovation and repairs of	0.9	6.0	2.1
Purchase of	0.9	7.4	2.5
Purchase of ornaments and	2.8	2.3	2.7
Purchase of other durable	1.3	2.0	1.4
Marriages	10.9	13.4	11.5
Grand Total	100.0	100.0	100.0

Source: Mathew and Nair, 1978.

In their study of two villages in Kerala, Mathew and Nair (1978) made an attempt to investigate how migrant households distributed their newly accrued income among alternative

[18] Nayyar, 1994.
[19] Cited in Russel, 1986.

capital items. Table 4.8, (which is an extract of a table presented in Mathew and Nair (1978)) is an example of the expenditure on capital items of rural households in Kerala.

The share of investment on business and livestock out of total expenditure on capital items in both the villages, as Table 4.8 shows, are, minimal, where as share on real estates and construction of buildings are highest, with construction of building taking more than half the share in Perumathura. The shares of expenditure on financing migration of relatives are as high as 6.1% in Perumathura, and as low as 1% in Puthukurichi. Asymmetry in expenditure patterns between the two villages can also be seen in the share of purchase of vehicles. On an average marriage take up a share of 11.5% in the two villages. Purchase of ornaments, jewellery, or consumer durables occupy moderately low share in both the villages.

Another study by Prakash (1978) finds that remittance-receiving households, in Kerala, enjoy a fairly high consumption standard, and view construction of house and its improvement as top priority. It was found that one third of the households had built a new house, within five years of migration of a household member, and another 20% had undertaken repairing and improvements.

Though a part of the land dealings, (included in real estates) are used to build houses for the receiving households, a part of these dealings serves a speculative purpose. This is because land purchases are bound to yield much more than that from keeping the money in commercial banks, especially, in a populated state like Kerala. Instead if the money had been saved in the commercial banks, it would have become available for the rest of the regional economy, according to the priorities and demands operating and determining the direction of investment there.

The impact of this expenditure pattern, on the sectoral price level, is observable in the land market and in the construction sector. Ibrahim, P. (1979) cites an example of land price

inflation. In 1978, the land price in Chawghat, a migrant sending village of Kerala, was higher than that in the costliest urban areas of Cochin. Evidences of land price inflation can also be found in another literature by Nair, (1989). Increases in land prices, both in rural and urban areas of Kerala, coincide in time with the increases in migratory flows to the 'Gulf'. Table 4.9 exhibits the trends in land dealings and land prices, in a semi-urban area, comprising of three adjacent villages in the Trivandrum district. While average area per deed shows a rising trend till 1977 and falling thereafter, land prices continue to rise till 1983. It is possible that land purchase out of remittances contributed to the rise in land prices, till 1977. But it is difficult to interpret the trend between 1977 and 1983 when average area per deed and average price of land show opposite trends. The high value of land prices, reached by the end of 1977, probably had a disincentive effect on purchase of land, possibly because land prices became so high that it went out of reach of many remittance receiving and no-receiving households. After the year 1983, both price and average area per deed of land decreased and this trend coincides with the trends in volume of migration from and remittances to Kerala.

Table 4. 9 Average Value Per Cent of Land and Average Area Per Deed, in (Anchamada, Chettiviacom and Randamada Villages)Trivandrum District, Kerala, 1975 - 1986

Year	Average Area Per Deed (in cents)	Average Value Per Cent of Land (in Rs.)
1975	11.38	363.67
1976	12.94	311.84
1977	12.27	365.93
1978	10.96	751.61
1979	9.60	1202.08
1980	8.41	1351.37
1981	9.26	1694.86
1982	7.73	1920.66
1983	7.31	2408.18
1984	7.49	2198.60
1985	6.82	2028.68
1986	6.85	2197.87

Note: 100 cents = 1 acre
Source: Nair, 1989

Increases in land prices, on one hand, renders land acquisition practically impossible for the economically weaker section. On the other hand, attracted by the high price and ready demand, when pressed for liquidity, for marriages or to repay debt, households resort to land sales. Therefore, mass land purchase, by remittance receiving households, imply an increasingly skewed land distribution.

Increasingly frequent construction activities, in these migrant-sending pockets of Kerala, resulted in a construction boom, combined with a shortage of skilled construction workers. In major emigration centres, this led to a 150-250% rise on the wage rate of such labourers, during the second half of the 1970s. Price indices of important building materials increased by 160-280 points between 1970 and 1979. Housing registered a higher rate of growth in the migrant sending villages, during this period[20].

Migration should be expected to have significant impact on the economy of Kerala, especially on districts, with high degree of migration, in view of the fact that it is a very small state and yet its people forming the single largest group, comprising as much as half of the total number of Indian migrants in the 'Gulf'[21]. According to Nair (1989), the available evidences suggest, that the migration and the resultant remittances do not seem to have made any significant impact on economic growth rate of the state economy of Kerala.

Table 4.10 summarises the growth of absolute values of per capita NDP (net domestic product), for districts of Kerala, for three selected years. The table shows that the 'heavy migration districts' had a low per capita NDP and lower rank in terms of it, than the other districts in 1970-71, before emigration began. This state continued in 1980-81, volume of migration was at its peak and in 1984-85, when migration slowed down and practically

[20] P.Ibrahim, 1979.

[21] Nair, 1989.

stopped. The only heavy migration district that registered a decline in relative position is Kozhikode., whereas Trivandrum district registered an improvement in rank. Therefore it can not be concluded that migration or expenditure out of remittances is responsible for non-improvement in rank.

Table 4.10 District-wise per Capita Net Domestic Product, 1970-71, 1980-81 and 1984-85 (at 1970-71 prices)

Districts	1970-71		1980-81		1984-85		Index 1984-85 as proportion of 1970-71
	Rs.	Rank	Rs.	Rank	Rs.	Rank	(per cent)
Heavy Migration Districts							
1. Trivandrum	586	(7)	64	(4)	662	(4)	113.0
2. Trichur	563	(9)	60	(7)	562	(9)	99.8
3. Malappuram	458	(11)	41	(11)	373	(11)	81.4
4. Kozhikode	627	(4)	59	(8)	577	(8)	92.0
5. Cannanore	558	(10)	55	(10)	553	(10)	95.5
Other Districts							
6. Quilon	655	(3)	63	(5)	619	(6)	94.5
7. Alleppey	594	(6)	61	(6)	648	(5)	109.1
8. Kottayam	664	(2)	68	(3)	684	(3)	103.0
9. Idukki	613	(5)	73	(2)	697	(2)	113.7
10. Ernaculam	665	(1)	77	(1)	756	(1)	113.7
11. Palghat	577	(8)	59	(9)	578	(8)	100.2

Source: Nair, 1989

Table 4.10 also shows that the growth of per capita net domestic product of all the 'heavy migration districts' except Trivandrum, is negative, whereas the growth of per capita net domestic product in all the non-emigrating districts except Quilon, is positive, over the period 1970-71 and 1984-85. Nair tries to drive to the point that migration is responsible for the dismal performance of most of the 'heavy migration districts'. But this conclusion is too far-fetched. The poor performance of these districts may not have occurred due to the out migration or receipt of remittances and the expenditure pattern out of them. There may have been other reasons this, which needs to be investigated. The negative growth rate may have taken place in spite of there being inflow of remittances. If migration alone would have been

responsible for this, then the growth of per capita net domestic product in Trivandrum district, which is the second highest among all the districts remains unexplained.

Table 4.11 Sectoral Distribution of Net Domestic Product by Districts in Kerala, 1970-71, 1980-81 and 1984-85 (in percentages)

Districts	Primary			Secondary			Tertiary		
	1970 -71	1980- 81	1984 -85	1970 -71	1980 -81	1984- 85	1970 -71	1980 -81	1984 -85
Heavy Migration Districts									
1. Trivandrum	48.7	33.0	31.4	15.7	19.2	17.0	35.6	47.8	51.6
2. Trichur	49.1	36.2	31.9	19.7	20.4	19.3	31.2	43.4	48.8
3. Malappuram	63.7	48.7	43.6	9.6	8.0	7.0	26.7	43.3	49.1
4. Kozhikode	55.6	39.5	39.1	12.1	19.4	15.8	32.3	41.1	45.5
5. Cannanore	56.2	45.5	43.3	14.7	15.7	11.1	29.1	38.8	45.5
Other Districts									
6. Quilon	62.2	45.2	40.5	15.6	20.9	20.0	22.3	33.9	39.5
7. Alleppey	56.0	34.3	37.0	13.9	22.8	19.7	30.1	42.9	43.3
8. Kottayam	62.2	44.7	44.7	10.7	16.4	14.9	27.1	38.9	40.4
9. Idukki	67.2	54.0	53.6	16.2	24.0	21.8	16.6	22.0	34.6
10. Ernaculam	35.8	32.1	33.4	32.6	31.6	28.7	31.6	36.3	36.9
11. Palghat	58.8	47.4	46.9	13.8	15.0	13.5	27.4	37.6	39.6

Source: Nair, 1989.

Nair (1989) further argues that the bias of expenditure pattern out of remittances towards the Kerala's secondary and primary sectors, while tertiary sector experienced considerable growth. Table 4.11 depicts the district wise sectoral distribution of Kerala. The share of tertiary sector indeed shows an increase between 1970-71 and 1984-85. The secondary sector shows an increase in share between 1970-71 and 1980-81 for all the districts except Malappuram, and a decrease in share between 1980-81 and 1984-85 for all districts. The primary sector shows a falling share of the net domestic product for the relevant period in almost all the districts. This, however do not quite prove that the expenditure pattern out of remittances is responsible for the falling and stagnated share of the primary and the secondary sectors respectively. If that had been the case, then the three sectors of the non-emigrating districts would have shown a different trend in their respective shares. Moreover it is also a fact that, relative overall shares of the primary, secondary and tertiary sectors of India showed

trends, that resembles the trends in Kerala, in the relevant period. It is most likely that the investments on land or construction were confined to areas where remittance-receiving households are concentrated. There is little probability that the effects of investments on land or construction in some particular districts of Kerala would overflow to other districts of the state and to other states of India.

From the above discussion on the use of remittances by migrants' households and its impact on the regional economy, it can be concluded that inflow of remittances and its use had little impact, positive or negative, on the overall economy of Kerala, except for increase in land prices and construction sector wages in districts where incidence of migration has been high.

The experience of Punjab on regard to use of remittances is narrated by Oberai and Singh (1980). They surveyed some villages, in Ludhiana district, to estimate for the use of remittances. This survey covered both international and internal migrants. In fact, among the surveyed sample, only 7.2% were international migrants. Since no other source of information is available, we are trying to get a rough estimate about the use of remittances from this study by Oberai and Singh. The study shows that migrant sending households are significantly better off, compared to others. In their sample, half of the returned migrants belong to the top 30% of income recipients, in the rural areas. The data shows that 70.7% of the return migrants brought cash with them. They inferred that, the inflow of remittances supplemented capital formation and investments in 'productive activities', and is a significant factor in sustaining agricultural development in this region. In a separate study, Oberai and Singh provides information on percentage of remittance receiving households that spend their remittances on selective items. They found that 75% of households spend most of their remittance earning on food and clothing, some 34% on housing and household goods, 24% on ceremonies, 6% on luxury items, 6% on purchase of land, 8% on purchase of implements, 7% on land

improvement and 7% on purchase of seeds and fertilisers. The data are not presented in a way that allows us to determine the proportion of total expenditure accounted for by any particular category of expenditure. It can only be said that a larger portion of remittance receiving households spent remittances on food, clothing, house and household goods. However, the percentage of households spending most of their remittance earnings on purchase of land, on purchase of implements, on land improvement and on purchase of seeds and fertilisers indicates that at least some proportion of the remittance inflows had been invested on farm related activities, which could have contributed in the agricultural development of the region.

From the experience of India and other countries around the world it appears that while some proportion of the remittance flows find their way into agricultural and industrial enterprises, the bulk of it is used for consumption and other activities, which are generally considered to be unproductive. Stahl and Arnold (1986), however, differ with this pessimistic view of the developmental role of remittances. According to them, in the developing countries, where the low-income families live in sub-human conditions, a spurt in expenditure on consumption and housing can improve the standard of living. Moreover, to focus solely on the immediate use of remittance income is to ignore the considerable stimulus it provides to the indigenous industries, as well as its contribution to the supply of loanable funds, i.e. investment capital. Expenditure out of remittances generates a multiplier effect that leads to an increase in aggregate demand, well in excess of the original value of the remittance inflow. It is true that part of this increased demand, generated by remittances, is satisfied by imports by various labour-exporting countries. But, the expenditure out of remittances also gives an important stimulus to the local industry. It is often argued that in presence of supply bottlenecks, in the developing countries, increased expenditure out of remittance leads to price adjustment, instead of quantity adjustment. Of course there are some evidences of rise in

land price[22], in some South Asian countries, which is associated to influx in remittance expenditure. However, there is no evidence that this has been manifest in general inflationary pressure.

According to Arnold and Shah, (1986) in the South Asian countries, a considerable proportion of the remittances is spent on housing. In almost all these countries, the housing industry has the highest ratio of domestic inputs to total inputs. Therefore, expenditure on construction can be expected to generate a large multiplier effect, with its consequent impact on output and savings.

Even if the recipients of remittances do not invest the money in industry or agriculture, the inflow of remittances into the bank accounts in the labour sending countries may serve as a 'high powered' monetary base, from which the banks may expand their loan portfolio. Even if these savings are only short-term, collectively at any point of time they constitute a considerable supply of loanable funds, which can be mobilised to industry, business or agriculture.

4.3 Macroeconomic Impact of Remittances:

This section reviews the impact of remittances on the overall economy of a country that receives remittances. It is distinct from the earlier section in that, instead of, analysing the use and impact of remittances at a regional level, this section reviews theoretically and empirically, how the inflow of remittances alters the magnitude of major components of the national income. We have separated the discussion into two parts. The first part, subsection 4.3.a presents a theoretical analysis of the impact of remittances on the macroeconomy. This analysis is an extract from Nayyar (1989). The second part, subsection 4.3.b extends the

[22] Given the fixed supply of land, its price is bound to rise in the face of rising demand.

theoretical analysis in the context of the Indian macroeconomy. The period 1970-71 to 1996-97 is considered in this subsection. The discussion for the phase between 1970-71 and 1990-91 has been drawn from Nayyar, (1994). We have attempted to extend this analysis for the later phase, 1991-92 to 1996-97.

4.3.a *Theoretical Analysis:*

The inflow of remittances can be conceived of as a transfer-payment made to domestic households, for the supply of labour services. In the 'national income accounting' identity, remittances appear as an increase in the 'trade balance' as a transfer of foreign exchange on the current account. So long as the value of remittances exceeds the income foregone, as a consequence of migration, the migration of workers should lead to some increase in the 'national income'. To analyse the impact of such increase, on macroeconomic aggregates, let us begin with the simple national income accounting identity.

$$Y = C + I + G + X - M^{23} \qquad (4.6.1)$$

An increase in income (Y), due to transfer-payments from abroad, in form of remittances, would lead to a consequent increase in consumption expenditure (C), investment (I), government expenditure (G) and imports (M). In absolute terms, all these components would register an increase. However, in proportional terms, the mix would depend how the propensities to consume, invest or import, out of income received from abroad, differs from the respective propensities, out of domestic income.

The macroeconomic consequences of the changes in expenditure can be traced through the impact on the major components of the 'national income identity'. An increase in

[23] I includes private investment as well as government investment; C is private consumption and G is government consumption.

the aggregate consumption expenditure ($C + G$) can have the following consequences. If the economy is demand constrained, it may lead to an increase in output. If, however, the economy is supply constrained, prices may rise or the demand may be met by importing, keeping prices at its level, depending on the distribution of consumption expenditure between traded and non-traded goods.

The rate of savings may rise or fall, depending on the saving propensities, out of domestic income and remittances. This saving, if utilised for investment, will determine the size and composition of the investment. This increase in investment (I) will result in a similar outcome, as in the case of an increase in consumption ($C + G$), depending on whether the economy is demand constrained or supply constrained.

The national income identity can be written as,

$$I - S = M - X \qquad (4.6.2)$$

where, $S = Y - (C + G)$

An increase in income, due to remittances, may enable the economy to realise an excess of investment (I) over domestic savings (S), through a corresponding increase of imports (M) over exports (X). Remittance inflow means a small drawal of external resources, for import over export, than would be the case otherwise. There would obviously be a rise in national savings, which include savings by non-residents, as an inflow of remittances means an inflow of savings by non-residents. This inflow of remittances would, therefore, ease out the saving constraint for investment, or the foreign exchange constraint for import of consumer goods or capital goods. Capital flows, e.g. repatriable deposits, may also ease the saving or foreign exchange constraints in the short run. But, unlike remittances associated with international migration, they are like foreign borrowings, which have to be repaid with interests and hence, they create a burden of interest payments in the long run.

The immediate effect of inflow of remittances is that it gives a boost to the 'balance of payment' (BOP) position of the country. If we analyse in a partial equilibrium framework, the increase in BOP surplus or the decrease in BOP deficit will be exactly by the amount of foreign exchange inflow, in form of remittances. As Nayyar (1994) argues, "such a *ceteris paribus* analysis is not justified, in a macroeconomic context, for two reasons. For one thing, international migration and associated financial flows influence components of balance of payments. For another, the macroeconomic impact of international labour migration affects the economy as a whole and, through it, the balance of payments."

The effect of international migration on the components of BOP may be four fold. Firstly, the emigrated population may induce export expansion, by creating demand for ethnic consumer goods, including ethnic food items. Secondly, remittance flows may induce import expansion, in three possible ways.

(i) Government may provide incentives to import, in order to attract remittances.

(ii) Remittance receiving households may incur import of consumer durables, or the migrant may bring them on return.

(iii) Large inflow of remittances, which makes the BOP situation comfortable, may lead to, or sustain, import liberalisation, on part of the government.

Thirdly, migration brings about foreign exchange, by way of tourism, to the labour-exporting country, through occasional visits of the non-resident migrants. Finally, exchange rates may be affected by inflow of remittances, if it is a sizeable proportion of the BOP. There may be deliberate devaluation by the government, in order to attract remittances. Such changes in the exchange rate would affect other components of the BOP.

Macroeconomic effects of remittances, on the BOP, may also arise from the corresponding changes in consumption, investment or government expenditure, or all of

them. This follows from the 'absorption approach', which suggests that the current account balance is identical to the difference between the income and absorption,

$$\text{i.e.} \quad Y - A = B \tag{4.6.3}$$

This follows straight from the 'national income identity'.

$$Y = C + I + G + X - M$$

Or, $Y - A = B.$

Where, $A = C + I + G$

and, $B = X - M$

We can write equation (4.6.3) as,

$$(Y_d + Y_f) - (A_d + A_f) = B \tag{4.6.4}$$

Where, Y_d is the domestic income,

Y_f is the foreign income,

A_d is the absorption out of domestic income $A_d = f(Y_d),\ f'(Y_d) > 0,$

and, A_f is the absorption out of foreign income, $A_f = f(Y_f),\ f'(Y_f) > 0.$

Now differentiating (4.6.4), with respect to Y_f, we get,

$$1 - \frac{dA_f}{dY_f} = \frac{dB}{dY_f} \tag{4.6.5}$$

Equation (4.6.5) suggests that, an increase in foreign income, in form of remittance inflows, would improve the BOP situation (or, prevent it from deteriorating), in a demand-constrained situation, so long as the marginal propensity to absorb, out of foreign income, does not exceed unity. In a supply-constrained situation, however, the money income will rise, rather than real income, resulting in inflation or import or both.

4.3.b *The Experience in the Indian Economy:*

Following this theoretical discussion, we will seek to answer two basic questions, in relation to the impact of remittances on the Indian macroeconomy.

1. *How far has the saving constraint been eased with the help of inflow of remittances?*
2. *What has been their effect on the 'balance of payments' and their components?*

To answer the first question, we need to look at the significance of remittances in relation to macroeconomic variables. Even though remittance inflows are small, relative to other macroeconomic variables, as expected for a large economy like India, the late 1970s and the 1990s have seen notable increase in its significance. Table 4.12 portrays the changes in the significance of remittances as percentage of important macroeconomic variables. In the early 1970s remittances were as small as being equivalent to 0.2% of GDP (Gross Domestic Product) at market prices, 0.3% of private consumer expenditure, 1.2% of GDS (Gross Domestic Savings) and a little over 1% of GDFCF (Gross Domestic Fixed Capital Formation). By 1980-81 these percentages had increased to 1.67%, 2.1%, 7.4% and 8.1% respectively. Between 1980-81 and 1984-85 the significance of remittances with respect to these variables remained stagnated before beginning to fall. A trend towards decline can be observed till 1990-91. However, in the year 1991-92 evidences show a doubling of these percentages, over the values in 1990-91. Between 1991-92 and 1996-97, the trend is towards high increase. The figures for 1996-97 are as large as almost double of what had been reached in 1980-81. This is consistent with the fact that remittances in India registered a spurt in 1975-76 (see Table 4.2 and 4.6), which reached a peak in 1980-81 and continued till 1984-85 and another beginning in 1991-92, probably yet to reach its zenith. If all remittances had been used, it could have accounted for at most 6% of total 'private consumption expenditure' or if all remittances have been saved, it could have accounted for 13.2% of GDS and if all remittances have been invested they would have accounted for at most 14.4% of GDFCF. It is

Table 4.12 Remittances in Relation to Selected Macroeconomic Variables, 1970/71 – 1996/97

Year	Remittances as percentage of			
	GDP at Market Prices	Private Consumer Expenditure in the Domestic Market	Gross Domestic Savings	Gross Domestic Fixed Capital Formation
1970-71	0.2	0.3	1.2	1.3
1971-72	0.2	0.3	0.9	1.0
1972-73	0.2	0.3	1.3	1.3
1973-74	0.2	0.3	1.2	1.6
1974-75	0.3	0.4	1.7	2.0
1975-76	0.5	0.7	2.8	3.2
1976-77	0.7	1.0	3.5	4.1
1977-78	1.0	1.3	4.5	5.3
1978-79	0.9	1.3	3.9	5.0
1979-80	1.3	1.8	6.0	6.9
1980-81	1.6	2.1	7.4	8.1
1981-82	1.3	1.8	6.2	6.6
1982-83	1.4	1.9	7.1	6.8
1983-84	1.3	1.8	6.8	6.6
1984-85	1.3	1.8	7.1	6.5
1985-86	1.0	1.5	5.5	5.0
1986-87	1.0	1.5	5.2	4.8
1987-88	1.1	1.6	5.1	4.9
1988-89	1.0	1.5	4.6	4.5
1989-90	0.8	1.3	3.7	3.1
1990-91	0.7	1.1	2.9	3.0
1991-92	1.5	2.4	6.7	6.9
1992-93	1.6	2.6	7.2	7.1
1993-94	2.0	3.3	9.0	9.5
1994-95	2.6	4.4	10.3	11.8
1995-96	2.6	4.4	10.2	10.6
1996-97	3.4	6.0	13.2	14.4

Source: (a) For data on remittances see Table 4.2 and Table 4.6.

(b) The figures for the year 1970-71 to 1984-85 have been taken from Nayyar, 1994; Table 16, page 72.

(c) For data on GDP at market prices, private consumer expenditure in the domestic market, GDS and GDFCF; CSO; for 1985-86, *National Accounts Statistics* (1993); for 1986-87, *National Accounts Statistics* (1994); for 1987-88, *National Accounts Statistics* (1995); for 1988-89, *National Accounts Statistics* (1996); for 1989-90, *National Accounts Statistics* (1997); for 1990-91 to 1996-97, *National Accounts Statistics* (1998).

noticeable that the significance of remittances, in past few years, in relation to these variables are almost double of what had been reached in the peak years of remittance inflows during the years of heavy migration to the 'Gulf'. The maximum figures between 1970-71 and 1990-91 were noted in the year 1980-81, and between 1990-91 and 1996-97, in 1996-97.

Given such order of magnitude, it can be inferred that the impact of these remittances, on income, consumption and prices have been minimal, in view of the large magnitude of the Indian economy. However, as we have noted earlier, there have been certain impact, on these variables, in the regions of heavy emigration like Kerala.

Let us now look at the trends in the major macroeconomic variables. Table 4.13 depicts the trends in share of Gross Domestic Savings, Gross Domestic Capital Formation, and Gross Domestic Fixed Capital Formation in the private and public sectors as percentage of GDP during the relevant period. The table shows that GDS and GDCF, as percentage of GDP, increases between 1970-71 and 1978-79, then slowly falls until 1984-85, again registers a rise till 1990-91, and again falls till 1993-94. Since 1994-95 till 1996-97 the trend is towards a rise, reaching a value of 26.1% and 27.3% respectively, which had never been reached before in the period under discussion. GDFCF in public sector, as percentage of GDP, shows a rising trend between 1970-71 and 1982-83, after which it stagnated around 10% till 1988-89 and falls thereafter. As expected the trend in the GDFCF in public sector does not even coincide with the trend in remittances. The GDFCF in private sector, as a percentage of GDP, was at a constant level around 9%, in the 1970s and early 1980s. It shows a rising trend only since 1987-88 and has been rising thereafter.

The jumps in the rates of savings and investments, particularly in the 1970s, coincides in time with the spurt in remittances. Some of the reasons of this jump are as follows:

Table 4.13 Trends in Savings and Capital Formation in India, 1970/71 – 1996/97

(as percentage of GDP at marker prices)

Year	Gross Domestic Savings	Gross Domestic Capital Formation	Gross Domestic Fixed Capital Formation in the	
			Private Sector	Public Sector
1970-71	15.7	16.6	9.1	5.5
1971-72	16.2	17.3	9.2	6.1
1972-73	15.4	15.9	8.8	7.1
1973-74	18.4	19.1	8.1	6.5
1974-75	17.4	18.3	9.2	5.8
1975-76	19.0	18.8	9.8	7.1
1976-77	21.2	19.7	9.7	8.3
1977-78	21.1	19.5	9.9	8.0
1978-79	23.2	23.3	10.1	8.0
1979-80	21.6	22.1	9.9	8.7
1980-81	21.2	22.7	10.7	8.6
1981-82	21.0	22.6	10.5	9.2
1982-83	19.1	20.6	9.6	10.5
1983-84	18.8	20.0	9.4	9.9
1984-85	18.2	19.6	9.6	10.1
1985-86	18.9	21.3	10.2	10.5
1986-87	19.5	21.6	9.8	11.3
1987-88	20.9	22.9	11.3	10.4
1988-89	21.4	24.5	11.6	10.1
1989-90	22.4	25.1	12.9	9.6
1990-91	24.3	27.7	13.8	9.4
1991-92	22.9	23.4	12.6	9.5
1992-93	22.0	23.9	14.0	8.5
1993-94	22.6	23.2	13.2	8.3
1994-95	25.6	26.9	13.4	9.0
1995-96	25.3	27.1	16.2	8.0
1996-97	26.1	27.3	16.8	7.2

Source: (a) For 1970-71 to 1984-85, Nayyar, 1994; Table 17, page 75.

(b) CSO; for 1985-86, *National Accounts Statistics* (1993); for 1986-87, *National Accounts Statistics* (1994); for 1987-88, *National Accounts Statistics* (1995); for 1988-89, *National Accounts Statistics* (1996); for 1989-90, *National Accounts Statistics* (1997); for 1990-91 to 1996-97, *National Accounts Statistics* (1998).

- Siphoning of profits from organised corporate sector to uncorporated enterprises in the household sector and as a result, household savings rose through the parallel economy.
- A rapid growth of financial intermediaries, in conjunction to the policies designed to induce investment, contributed to this jump.
- A movement in the intersectoral terms of trade against agriculture, where marginal propensity to save is low, also pushed up the savings rate.
- A rapid expansion of currency holdings and bank deposits, partly due to large public stocks of food grains and partly due to the spurt in remittances, led to larger savings.

Contribution of remittances in the jump in savings in 1970s and early 1980s, which could account for only a very small proportion of total savings (7.4% at the most; see Table 4.12), can be traced only after the mid-1970s. It can be concluded that remittances were probably a contributory factor and a large proportion of the increase in savings, during the 1970s, can be attributed to other factors. The trend of savings, in the late 1980s and early 1990s, does not even coincide with the trends of remittance flows. Only since 1993-94 the trends in savings and remittances coincide with each other. Between 1993-94 and 1994-95 remittances increase from 2.0% to 2.6% of GDP while GDS increased by 3% of GDP. In the years 1994-95 and 1995-96 remittances remained constant at 2.6% of GDP and GDS fell by mere 0.3% of GDP. In the next year both GDS and remittances increased by 0.8% of GDP. In this last phase since 1993-94, remittances might have contributed partly to variations in GDS, given their coincidence in trend. Even if all the remittances were saved it could have contributed to only a part of increase in GDS. Assuming that marginal propensity to save (MPS), out of remittances, is at least as much as that out of domestic income, variations in the share of GDS in GDP can only be partly explained by variations of remittance inflows.

The remittance inflows that are saved in are included in the estimates of gross domestic savings in the NAS. However, there exist no exact data on how much of this

resource is actually mobilised, through the commercial banking system, to finance the domestic investments. So it is difficult to come to any conclusion regarding the role of remittances in easing out the savings constraint. The estimation by the relative percentages of remittances and savings in GDP only suggests the proportion of savings constraint that can be financed by remittances, if it is entirely saved.

The increase in the GDCF, as percentage of GDP, in the 1970s, does not appear as substantial in real terms, if the data are expressed in constant prices. In the 1990s GDCF, as percentage of GDP, at constant prices increased steadily from 21.6% in 1991-92 to 27.5% in 1996-97[24]. The reasons behind growth in capital formation, during the 1990s, can be many. Increase in inflow of remittances, during this time, can be one of those reasons, contributing possibly a very small proportion. In the earlier Table 4.12, we have seen, in the entire period under discussion, remittances, if entirely spent on fixed-capital formation, could finance very small proportion of total GDFCF. The rate of GDCF, in the private sector, remained stable in the range of 9%-10%, throughout the 1970s and early 1980s and increased since the later half of the 1980s. This rise can possibly be explained by the gradual shift towards privatisation, in most parts. GDCF, in the private construction sector, as percentage of GDP, which may have been most likely to increase as an investment outlet of the remittance receivers, fluctuated around 5% during the entire period.[25] It may have been the case that remittances were used to buy the already purchased houses, or the changes in investment in construction were simply not large enough to show up at the national level. Table 4.13 shows that almost the entire increase in GDCF, till 1988-89, was attributable to the increase in 'public sector' investments, which obviously was not a consequence of remittance inflows. In the 1980s, the rate of GDCF

[24] Computed on basis of NAS data.
[25] CSO; *NAS*, annual issues.

and remittances show diametrically opposite trends, with a spurt in the former and the later showing a decline.

It is possible that remittances and repatriable deposits were used, at least in part, to substitute for domestic savings, in investment, and in part, to support consumption expenditure.

Next, we shall come back to answer our second question about the effects of remittances on the components of balance of payments (BOP). The significance of remittances vis-à-vis the selected components of India's BOP is depicted in Table 4.14. The table shows remittances, as percentage of exports and imports, increased during the period 1970-71 to 1980-81, and declined slowly thereafter, till 1990-91. During the 1990s the respective shares show a steadily rising trend, till 1997-98. The values reached had never been so high as in 1997-98, during any of the years in the period under discussion. During the first half of the 1980s, remittances were large enough to finance 40% of the balance of trade (BOT) deficit, while in the 1990s it was as large as to finance at least 65% and at most 145% of the BOT deficit.

As we have discussed in the theoretical part of our discussion, it is not justifiable to consider the effects of remittances on BOP, without considering the effects of migration on the components of BOP.

Emigration to the industrialised countries did not have any significant impact on Indian exports. The first-generation migrants probably created a demand for ethnic goods, specially ethnic food, but the impetus diminished over time. The size of this section of emigration flow was so small that they constituted a minute proportion of the population in the migrant receiving countries. Therefore, their influence on the size of the market for Indian goods, in these countries, was insignificant.

Table 4.14 The Significance of Remittances vis-à-vis Selected Components of India's Balance of Payments, 1970/71 – 1997/98

Year	Remittances as percentage of			
	Export	Import	Balance of Trade Deficit	Current Accounts Receipts
1970-71	5.7	4.7	19.1	4.2
1971-72	7.2	5.6	25.5	5.3
1972-73	5.5	4.8	41.5	4.3
1973-74	6.1	5.2	37.6	3.1
1974-75	6.9	5.3	22.5	5.4
1975-76	10.1	8.9	74.8	7.3
1976-77	12.1	12.9	(197.2)*	8.6
1977-78	16.9	16.6	853.3	11.1
1978-79	17.0	12.8	51.2	10.8
1979-80	23.7	15.4	43.6	13.7
1980-81	32.7	17.1	36.0	17.2
1981-82	26.8	15.0	34.0	15.3
1982-83	26.6	16.3	42.1	16.0
1983-84	26.0	16.5	45.1	15.5
1984-85	24.9	16.0	44.4	14.7
1985-86	23.5	12.8	28.3	13.9
1986-87	22.5	13.2	32.0	13.9
1987-88	21.5	13.7	38.0	13.8
1988-89	18.7	11.3	28.5	12.2
1989-90	13.5	9.4	30.8	9.4
1990-91	11.3	7.5	22.1	8.0
1991-92	21.0	18.3	145.0	13.8
1992-93	20.6	15.6	65.3	13.8
1993-94	23.3	19.8	130.3	15.5
1994-95	30.2	22.6	89.6	19.1
1995-96	26.5	19.6	75.6	17.1
1996-97	36.5	25.4	84.1	22.3
1997-98	33.9	23.1	72.3	20.4

Source: (a) For data on remittances, see Table 4.2 and 4.6.

(b) The figures for the year 1970-71 to 1987-88 have been taken from Nayyar, 1994; Table 18, page 80.

(c) For data on exports, imports, balance of trade deficit and current account receipts, for the years 1993- 94 to 1997-98, *Report on Currency and Finance* (1997-98); for the years 1992-93 *Report on Currency and Finance* (1996-97); for the years 1991-92 *Report on Currency and Finance* (1995-96); for the years 1990-91 *Report on Currency and Finance* (1994-95); for the years 1989-90 and 1988-89, *Report on Currency and Finance* (1993-95);

Note: * There was a surplus in the balance of in 1976-77, there were deficit in all other years.

On the other hand, labour flows to the Middle East were large and thus could affect the small domestic markets of these economies. But in these economies, the import of labour and goods were linked to oil prices. The trend in Indian exports, to the oil producing countries of the Middle East, registered an increase since 1973-74 and declined after 1977-78.[26]

The trends in labour outflows and exports, from India, does not really coincide, and hence, the increasing trends of export cannot be attributable entirely to the migratory flows. The increase in exports to the Middle East can be noted to follow the oil price hike in 1972-73, which created new markets for Indian goods in these countries. The falling trend in the share of export to the Middle East can be attributable to the increasing competition from West Europe, Japan and the East Asian countries. Thus this spurt in the exports to the Middle East should be related more to the increase in oil prices, and less to the migratory flows.

It is not that migrants could not at all affect the import basket of the countries of the Middle East. The fact that they could becomes evident from the increasing share of 'food, beverages and tobacco' import from India between 1970-71 and 1984-85 to countries like Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and UAE. Each of these labour importing countries registered a percentage increase of around 20 points, in imports of meat, fish, spices, tobacco, tea and coffee, which are collectively termed as 'food, beverages and tobacco'[27].

The effects of remittances would be pronounced for imports, than for exports. Government policies play an important role in determining the remittance induced import basket. There are no explicit import leakage from remittances, simply because the government did not allow the use of remittances for import of goods till the early 1990s. However, the migrants brought consumer goods, mostly durables, during their visits to India. This

[26] Nayyar, 1994.

[27] *Ibid.*

expenditure constitutes a part of the remittances. But, such leakages are very small, relative to the total remittances. Despite the strict policy regimes, on account of imports by non-residents, widespread incidences of smuggling, of luxury consumer goods, is well recognised. Demonstration effects from the migrant-sending households, who received consumer durables from the migrants, may have induced an import demand, which, in turn, may have given way to the smuggling business.

The impact of migration, on tourism, is difficult to assess, since, statistics on tourist arrivals, in India, do not include the NRIs who are Indian citizen, and do not differentiate between foreigners and persons of Indian origin. Between 1970 and 1990, 25% of the tourists came to India from South and Southeast Asia and Africa, which includes countries like Sri Lanka, Malaysia, Singapore, South Africa and Mauritius, with long settled Indian communities. The figure from the USA, the UK and Canada, collectively, was 30%, and a part of this consists of Indian immigrants to these countries. From the Middle East, tourist arrival increased sharply since 1975. It increased from 3% to reach a level of 9% of the total number of tourists, between 1982 and 1987. Nayyar (1994) suggests that this rising trend can be attributable more to income effect than to migration effect. Increased incomes of oil exporting countries of the Middle East probably stimulated tourism to many destinations, including India.

We have already discussed the influence of exchange rate, on the volume of remittances, in section 4.4. However, the effect of remittances on the exchange rate, as Nayyar argues, is not significant for India. It is possible that attracting remittances, through official channels, was one objective of depreciating the overvalued exchange rate, but it was only a minor objective. Remittances, in relation to the other components of the BOP, even when it was at its highest level, in the first half of the 1980s, could hardly affect the market

exchange rate. This effect must have been not so insignificant in the 1990s, when remittance grew to a level higher than the total current account deficit.

Thus the major contribution of the remittances was to finance a substantial part of the BOT deficits. The impact on import, through direct and indirect leakages, was probably small.

4.4 Policy Issues:

Remittances are a source of foreign exchange to any labour-exporting country. It eases the balance of payment position of the country that receives it, as an immediate outcome. This additional resource, other than just improving the balance of payments, if put to productive use, can help relax resource constraints operating inside the country. Therefore the policy objectives of a country confronted with balance of payment crisis and internal resource constraint, should be two. One objective is to maximise the remittance earnings, given the volume of labour flows. The other objective is to influence the remittance earnings to be put in productive use.

4.4.a *Policies to attract Remittances*:

Inflow of remittances can be facilitated by governmental policies of the labour-exporting countries. The government can either facilitate inflow of remittances by offering 'incentives', or it can enforce a policy of 'mandatory remittances'.

As we have seen earlier in this chapter (section 4.1) that the exchange rate of the domestic currency is a determining factor behind a migrant's decision on whether to remit or not. Lower is the value of the domestic currency, as against any hard currency, greater is the incentive to remit. Therefore a policy incentive to the migrants to send remittances, can take the form of offering a premium rate over the official exchange rate, which enables migrants to

achieve a scarcity margin for their savings that they remit. Liberalisation of foreign exchange regime towards a market determined one from an officially determined exchange rate regime could also serve the purpose of providing policy incentives to the non-residents for sending more remittances.

Difficulties in the banking procedures often confronted by the migrant act as barriers to inflow of remittances. Easing of banking procedures for remitting is another option for the government of the labour-exporting country to attract remittances.

Incentives can also take the form of providing preferences to non-residents for importing, or for obtaining loans for buildings and investments, etc.

Policy of making remittances mandatory are another option available to the labour-exporting country. But this policy has its own economic and social limitations. Remittances can be enforced only if the volume of the migration flow is controlled and organised by the government itself or by some agency with active involvement of the government.

Some evidences of policies taken by various labour-exporting countries:

The importance of policy incentives, like offering a premium over the official exchange rate, or liberalising the exchange rate regime was recognised by some south Asian countries during the 1970s. Bangladesh introduced such a scheme in 1974, under which, migrants could sell their foreign exchange earnings at a rate that is 25% to 35% higher than the official rate, for importers. In the early 1980s, when the country moved to a more freely determined exchange rate regime, this premium rate was reduced to much lower levels. Pakistan offered the incentive of premium rates in form of *'hundi'* system. In 1985, Pakistan started a scheme of 'Foreign Exchange Bearer Certificate' (FEBC), which offered incentives in similar forms as in the case of premiums. These certificates could be obtained by overseas

Pakistanis, on payment of foreign exchange, and could be cashed, whenever desired, in foreign currency or in domestic currency, at a higher encashment value. Considerable flexibility was attached to the certificates, in the form of their unrestricted export and import.

The policies of 'mandatory remittances' have been followed in Philippines, Korea, China and many other Mediterranean countries. Filipino and Korean workers, in the Middle East, had to send back 70% and 80% of their earnings, respectively, and the Chinese workers had to send 30% of their earnings to their families and 40% to the Chinese government.[28] Such policies are, however, difficult to administer, in view of political limitations to state intervention.

Government policies for attracting remittances, in India:

As for providing incentives, through a devaluation of the rupee, Government of India did not take any deliberate policy action to attract remittances through official channels. As we have seen, the exchange rate policy and the exchange control regimes, undertaken for broader policy issues, during the early and mid 1970s, facilitated the inflow of remittances through official channels.

During the 1970s, some simplifications were made in the banking procedures to attract remittances. The banking services were extended overseas, foreign exchange regulations were liberalised for the NRIs and laws were enforced against smuggling. These developments were 'permissive' to the flow of remittances.[29]

4.4.b *Policies to Influence the Use of Remittances*:

The fact that remittances are essentially private monies, as distinct from capital flows (debt creating or non-debt creating) calls for appropriate formulation of policies, to

[28] Russell, 1986.
[29] Nayyar, 1994.

influence their uses. It is lucrative from the point of view of an individual or household to invest the saved remittances, say in land purchases with a motive of speculation, where the rate of return is high. But for the society at large, this is only a change in the ownership. Thus, policy formulation to influence the use of remittances will make the remittances supplement to overall developmental efforts of the economy, and as well, a source of future income of the migrant on her return. Thus channelling this private fund, for 'productive investment', should be the immediate objective of policy improvisation.

Migrant's savings can be channelled towards productive investments in many ways. Attracting deposits under the repatriable deposit schemes, attracting directly investable funds from non-residents for developmental projects, and promoting productive investments among the returning migrants and the migrants' households, are some of these ways. As we have set out the scope of discussion in this chapter, inflow of foreign exchange in the form of capital flows and their use are not the subject of discussion of this chapter. The first two channels of inflow of investable resources from overseas migrants are included in the category of capital flows and hence are not within the scope of discussion of this chapter. Therefore we will limit ourselves to discussion of the promotion of productive investments among return migrants and migrants' households in labour-exporting countries, in general, and in India, in particular.

It is difficult to implement policies to *promote productive investments among the migrants' households.* It is difficult to influence a private household in its decision regarding expenditure. Moreover, it is not possible for a poor remittance-receiving household to spend more than a meagre proportion of its remittance earning on expenditures other than consumption. Therefore, it has never been common among the labour-exporting countries to adopt policy measures, which may channel remittance earnings to 'productive' use. Uses of remittances are rather determined by the economic status of the receiving families and their exposure to alternative channels of 'productive' investments.

With regard to policies, *promoting productive investments among the returning migrants*, government policies have shown a propensity to encourage self-employment, on an individual or co-operative basis. The rehabilitation of return migrants are particularly relevant for temporary migrants, who migrate for a period of a few years and face problems in getting reabsorbed on return. We have discussed the rehabilitation schemes for the return migrants, in greater details, in the next chapter. The self-employment schemes are potentially risky, given that the return migrants do not have any prior entrepreneurial experience. Moreover, these projects are small and miss out the scale advantage. Also there is a high propensity to concentrate in trade and services like petty transport etc. Co-operatives, to some extent, overcome these difficulties. But governments have not usually formed specific policies to guide such investable resources into target sectors.

India's experience with policies to influence the use of remittances:

For the return migrants to India, who wished to set up a new industrial unit or participate in the expansion of an existing unit, were allowed preferential access to imports, since the early 1980s, provided the payment was made abroad, in foreign exchange. In such cases, the capital invested or the profit earned could not be repatriated. Until March 1992, the following facilities were available under the import policy:

1. Capital goods, the import of which were otherwise subject to licensing procedure and indigenous clearance, could be imported under the 'open general licence' (OGL) without an import license subject to a c. i. f. value limit of Rs 3.5 million.
2. Capital goods, the import of which were otherwise restricted, along with second-hand machinery, professional equipment, computer systems, generating sets, office equipment, and prototypes, could be imported after obtaining an import licence.

3. Raw materials, components, consumable goods and spares for use in industrial units could be imported under OGL, without an import licence, for a period of three years, a year at a time, subject to maximum limit of Rs 0.5 million per year.[30]

However, since the remittances are essentially private monies, the decision regarding the use of it is left entirely to its recipients. Of course, in a market economy, it is not possible to intervene directly in the allocation of these resources, except through incentives and prices. Even if the migrants themselves do not invest their savings in industrial or business enterprises, their savings could be mobilised to the investors, through financial intermediaries, by providing extra incentives in form of, say, better rates of return on remittance receipts placed in specified assets or deposits.

At a regional level, even though the Kerala Government tried to persuade migrants to entrust saving into investment in the public sector, such attempts have not been very successful. "One of the major reasons for the failure has been the lack of faith in the ability of the government as a prudent manager of the funds, and the bad examples set by the public sector enterprises."[31]

Though the State Government of Kerala has not been notably successful in bringing remittances or migrant's savings to productive use, some developmental agencies in Kerala (namely, Kerala State Industrial Development Corporation, Trivandrum; Kerala Finance Corporation, Cochin; The State Bank of India and its subsidiaries, and commercial banks etc.) functioning outside the plan framework, had been involved actively in promoting the idea of industrial investment or promoting industries sponsored by migrants, in the second half of 1980s. These organisations were successful in acquiring investable funds, both from migrants

[30] This did not apply for canalised items, whose imports were possible only through designated state trading organisations.
[31] Nair, 1989.

working abroad and from the return migrants, by providing incentives of reducing bureaucratic hassles, subsidies and entrepreneurial training programs. The industries that were promoted among migrants include engineering units (including repair works), electronics welding, rubber based industries, wood-based industries, soft drinks, plastic industries, bread and sweetmeat.

Even if these efforts succeeded, it is likely that only a small proportion of migrants, who were venturesome, experienced and well off, was captured. Others who have low levels of education, little technical competence and entrepreneurial talent, and low level of savings had been left out.

Concluding Remarks:

The objective of this chapter has been to examine the developmental value of remittances, which depends on two factors. The value of remittances, as a source of foreign exchange, its uses by the receiving households determines and the corresponding impact on the regional and overall economy determines how beneficial remittances are for the purpose of development.

Value of remittances is primarily dependent on the volume of migration. Experiences of various labour-exporting countries, including India confirms to this view. The factors that raise the value of remittances, a migrant sends home, are low economic status of the family back home and high economic status of the migrant. However, these two factors do not often operate simultaneously. Hospitable immigration policy at the destination that allows the migrant to settle with family reduces the value of remittances. Age of the migration stream is another factor that negatively affects the value of remittances. Relatively lower value of remittances to India from the migrants in advanced industrialised nations than those in the

Middle East is a result of relatively restrictive immigration policy in the 'Gulf', on one hand, and of the older age of the migration stream to the West, on the other.

Value of remittances that a country receives through the official channels is negatively related to the magnitude of difference between the official and the free market exchange rate of the currency of the home country. A freely convertible exchange rate regime is thus favourable for attracting remittances. Apart from this, experiences of various labour-exporting countries show that stable economic environment in the home country is also favourable to attract remittances.

Remittances, similar to other sources of foreign exchange relax the resource constraint that an underdeveloped labour-exporting country confronts with. Attracting larger value of remittances should thus be an aim of policy formulation in labour-exporting countries for developmental purposes. Policy formulation to attract remittances has taken the forms of incentives offered to migrants, as well as that of mandatory remittances.

Impact of remittances on the regional economy is dependent on the way it is used by the receiving households. Unlike other sources of foreign exchange, such as foreign aid or borrowing, remittances are private monies and hence, its use is decided privately. Poor receiving households of most labour-exporting countries spend remittances on consumption, house building, on repayment of debts and real estate dealings, though there are exceptions to this. Productive investments out of remittances contribute to the development of the regional economy. Policy formulation for maximising developmental benefits aims at influencing the use of remittances in a productive direction.

Impact of remittances on the overall economy is significant if its value is sizeable in proportion to the other macroeconomic variables. We have examined the impact of remittances on the overall economy of India. For a large economy like India, total value of

remittances has been small relative to other macroeconomic variables. Only in the 1990s it has taken a relatively significant value, compared to earlier years. The value of remittances in recent years has become significant so as to finance the balance of payment deficit almost entirely and a considerable part of the domestic investment.

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[i] Note:

There are no published data, available in India, on private transfers by countries of origin. The Reserve Bank of India compiles and publishes a region wise classification of current account transfers. Regions, namely, 'the sterling area', 'the dollar area', 'the OECD area' and the 'rest of the non-sterling area', classify the credit entries, on account of private transfer payments. Private transfer payments from each of these areas for the years 1970-71 to 1990-91 are presented in Table 4A. The 'dollar area' comprises of the USA, Canada, the Central American countries and some countries of the Latin America. It is reasonable to assume that the private transfer payments from the 'dollar area' originate chiefly in the USA and in Canada. Once the contra-entries of imports under the PL480 programme (credits in private transfer payments) are adjusted for, it is possible to estimate the remittances from North America. It should be noted that, from 1986-87 onwards the Reserve Bank of India figures for credits on account of private transfer payments exclude grants under PL480 imports. Therefore, no adjustment is necessary in the data for the year 1986-87 and the following years. It should be noted that Table 4.2 shows the trend in 'remittances', as this includes years for which data on private transfer payments had to be adjusted for grants under PL480 imports, while Table 4.6 shows trend in 'private transfer payments' as it includes years for which no such adjustments were required. The 'OECD area' comprises of Western Europe, excluding the UK, and Turkey. It can be reasonably assumed that the private transfer payments from this region are attributable entirely to remittances from Western Europe. The 'sterling area' constitutes the UK, Ireland, the Caribbean islands, some countries in East and West Africa (Kenya, Tanzania, Zambia, Nigeria), the Persian 'Gulf' states in the Middle East(Bahrain, Kuwait, Oman, Qatar, and the UAE), South Asia (Pakistan, Bangladesh, Sri Lanka), parts of Southeast Asia (including Malaysia and Singapore), Australia, New Zealand and Fiji. It is likely that until the early 1970s, a large proportion of the remittances, from this region originated in the UK, and thereafter, the share of the Persian 'Gulf' states is likely to have risen sharply. Such shifts in the relative shares were probably discrete rather than continuous. Accordingly it is assumed that the share of the UK and Australia, in private transfer payments from the 'sterling area', was 60% until 1973-74, 40% in 1974-75, and 25% in 1975-76, whereas, the corresponding share of the Persian 'Gulf' states was 10%, 20% and 50% respectively. The remaining share of 30%, 20% and 25% respectively is attributable to the East African and Southeast Asian countries in the 'sterling area'. For the period 1976-77 to 1990-91, it is assumed that the share of the Persian 'Gulf' states, in private transfer payments from the 'sterling area', was two-third and the remaining one-third is assumed to be shared equally by the UK and Australia, on one hand, and the developing countries of Africa and Asia on the other, during the period 1976-77 to 1984-85, and in the ratio 2:1, during the period 1985-86 to 1990-91. The region described as 'rest of the non-sterling area' comprises the Eastern Europe, most of the Latin America, and a large part of Africa and the Asian countries outside the 'sterling area'. A significant number of oil exporting countries of West Asia and North Africa, e.g. Saudi Arabia, Iran, Iraq, Libya etc. are part of this region. The Latin America and the East Europe are expected to send almost no remittances. So the transfers, generating from the 'non-sterling area', mostly come from the developing countries of Asia and Africa. As done in the case of 'sterling area', it is assumed that the share of the oil exporting countries, in private transfer payments from the 'non-sterling area', was negligible until 1973-74, 50% from 1974-75 to 1975-76 and in view of the 'oil boom', rose to 90% during the period between 1976-77 and 1984-85, which again decreased to 80%, due to contraction of economic activities in Iraq, Iran and Libya, during the period 1985-86 to 1990-91. On basis of this exercise, the time series composition of remittances, to

India, by their origin, is presented in Table 4.3. For a detailed discussion about the basis of the above-mentioned assumptions, see Nayyar (1994).

Table 4A Private Transfer Payments (Credits) in India's Balance of Payments, by Region, 1970/71 – 1990/91 (in Rs. crore.)

Year	Sterling Area	Dollar area	OECD Area	Rest of non-Sterling Area
1970-71	372	843	114	35
1971-72	579	939	194	33
1972-73	449	1003	159	32
1973-74	766	1041	189	67
1974-75	1107	1267	349	76
1975-76	2481	2280	502	149
1976-77	3542	2871	664	380
1977-78	6157	2502	786	848
1978-79	6075	2720	949	848
1979-80	9783	3809	1192	1536
1980-81	15286	3490	1684	2227
1981-82	13168	4896	1866	2440
1982-83	14961	4465	1828	4149
1983-84	14757	5239	2119	5735
1984-85	15297	5932	2220	7713
1985-86	14507	6002	2578	5266
1986-87	16539	5323	2617	5427
1987-88	16830	6245	3705	8547
1988-89	14563	12955	3943	7193
1989-90	15696	7998	5434	9111
1990-91	16899	8645	4633	6083

Source: Nayyar, 1994.

Chapter 5

Labour Market Implications of Emigration

The issue of implications of emigration, on the labour markets of the labour-exporting countries, is a source of debate in 'Development Economics'. The objective of this chapter is to address some of the aspects of labour market implications of emigration, which may be reasons for concern for a labour-exporting country, and also to address, in this connection, some of the debated issues.

Whether emigration can be a solution to the problem of unemployment, is the most important part of the debate. The question on the role of emigration, as a possible way of releasing unemployment pressure, is particularly relevant for those developing countries where other policies of labour-welfare have proved not to be efficient enough to bring down the level of unemployment.

The volume of labour outflow, as a proportion of the work force, is a critical determinant of the labour market implications of emigration. Large volume of labour outflow, especially of skilled labour, from the domestic labour market as a whole or from a particular sector, can result in skill shortages, and the country incurs a social cost in terms of skill formation and skill replacement.

We intend to address this issue of the role of migration as a device to curb unemployment pressure and the problem of skill shortage created by mass emigration, through the presentation of theoretical literature on the topic and empirical evidences from some labour-exporting countries including India.

International migration, many often, is followed by a flow of return-migration, with a time lag. Re-absorption of the returnees is another cause of concern for the labour-exporting countries, with an existing excess supply of labour. At the same time, return migrants are believed to be playing an important role in skill formation in the domestic labour market. This belief is another debatable issue. We will intend to address both these issues in this chapter.

Given the above queries and the issues of concern for the labour-exporting countries in relation to the labour market implications of emigration, our final objective is to discuss the rationale for the policies that maximise the benefits and minimise the costs of emigration on the home country's labour market.

Our discussion in this chapter is limited to the immediate impact of emigration on the labour market, and does not include any detailed welfare-theoretic analysis.

Section 5.1 presents the theoretical literature that addresses the issues regarding implications of emigration, on employment and wages in a labour-exporting country. This discussion is separated into two parts – implications on the labour markets of the agricultural sector and on non-agricultural sector. This has been done in view of the fact that in most underdeveloped labour-exporting countries, labour markets do not operate in the same fashion in these two sectors. Section 5.2 presents empirical evidences regarding the implications of emigration on wage, employment and skill shortage. The problems of re-absorption of return migrants and the issue of skill formation through return migrants are discussed in section 5.3. Section 5.4 addresses the policy issues concerning the labour market implication of emigration.

5.1 Impact of Emigration on the Labour Market: Some Theoretical Issues

In this section we would discuss the effects of emigration on wages and on the level of employment of the labour-exporting country. Emigration is presumed to act as a 'safety valve' by reducing the employment imbalance existing in a country with surplus labour. This theoretical discussion on the impact of emigration on employment and wages will examine the conditions under which such a presumption is true.

The discussion is separated into two parts – the impact on agricultural labour market and those on non-agricultural labour market. This differentiation is made because, in a labour surplus developing economy the two markets operate differently. The agricultural sector is distinct from the non-agricultural sector in two ways. Firstly, agricultural sector has to operate on a constrained land input, which results in decreasing returns to other factors, including labour. Secondly, in most developing countries, labour market in agricultural sector, in general, is not fully formed, unlike the non-agricultural sectors, where all workers are wage earners. But in agriculture, the labour force is divided into landless agricultural wage-labourers and members of the landed small and middle peasant households. Let us begin the discussion with the agricultural labour market.

5.1.a. *Impact of Emigration on the Agricultural Labour Market: Wages and Employment for the Family Labour and Wage Labour*

We begin our analysis of emigration from agricultural sector and the possible impact on the agricultural labour market with the following neoclassical assumptions, which are simple, but rigid.

i. Emigrants are all exactly self-supporting; no remittances flow towards the agricultural households in the home country.

ii. The ratio of migrants to non-migrants is identical for all groups of people in the rural sector, irrespective of their age, sex, educational qualification and income.

iii. Emigrants and non-emigrant villagers have identical 'community indifference maps', between income and leisure.

iv. Land area under cultivation couldn't be extended at all.

These neoclassical assumptions give the typical neoclassical result. As workforce is withdrawn, land-man ratio increases. This, in presence of decreasing returns, results in an increase in the average and marginal product of each worker. Since, for the family members of the peasant households, average product is the wage, emigration results in a rise in agricultural wages. In developing countries with large part of population dependent on agriculture, disguised unemployment is a common phenomenon. Agricultural families often find themselves endowed with excess labour than what is optimally[1] needed for cultivating the piece of land they own. This gives rise to the presence of disguised unemployment. Peasant families employ wage-labourers only when the number of family members fall short of the 'optimal' number, so that addition of an extra unit of labour increases output, i.e., in absence of disguise unemployment. Wages to the wage-labourers are paid according to marginal products. A rise in productivity, as a result of an increase of the land-man ratio would also result in a rise in wages for the wage-labourers. It is worth mentioning that when a peasant family employs wage labourer, each of the family labourers gets his/her share of output, net of wages. However, we cannot unambiguously conclude, whether this average return to the family-labourers would rise or not, as a result of emigration. It actually depends on the exact form of the production function.

[1] The optimal number of labourers is defined as the number of labour units that maximises the total product for a given area of land.

Lipton (1980) discussed the impact of emigration from agricultural sector, taking into account the above mentioned neoclassical assumptions. Among these assumptions only the last one, though simplistic, resembles reality. Land is, in fact, scarce and its expansion involves a high cost. The other assumptions are rigid and, in most cases, far from reality. Lipton extended his discussion by dropping these assumptions one by one. This exercise is useful in the sense that, it brings the analysis closer to reality. In the following portion of this sub-section, we would attempt a simple diagrammatic representation of Lipton's model.[2] Following Lipton's line of discussion, we would first analyse the effects of emigration, taking all the four neoclassical assumptions into account. This would be followed by an analysis, relaxing the first three assumptions, which are rather unrealistic.

We would analyse the effects of emigration on agricultural labour market, taking into account the presence of disguised unemployment. As we have just said, in a developing country, where labour market is imperfect in the agricultural sector, agricultural activities are often carried out by family-labour and presence of disguised unemployment is common. As it would be seen in the following analysis, when emigration is not very widespread, so that only the disguised unemployed labour force or a part of it is eliminated from agriculture, the only effect is a rise in the average returns to the family-labourers. In that case the family farms do not employ wage-labourers, since the exodus does not pull marginal product above zero. However, if the emigration is widespread and the outflow of labour continues for some considerable time, the domestic agriculture may confront shortage of labour. The availability of labour in the agricultural sector may fall to a level so as to pull the marginal product of labour above zero and thereby create considerable impact on the agricultural labour market in the sending country. It is often observed that, emigration concentrates in some regions of a

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[2] It is worth mentioning that Lipton himself didn't make any diagrammatic representation of the analysis.

developing economy. Possibly, these regions face an acute shortage of family-labour after sending migrants for a considerable period of time. This conjecture motivates us to consider the effects on agricultural labour market when emigration enforces acute shortage of family labour in the domestic agriculture.

First, let us consider the case where emigration only eliminates the disguised unemployed from the agricultural sector. Along the vertical axis, in panel (a) of Figure 5.1, we measure the total product and in panel (b) of the same figure, we measure the average and marginal products. Along the horizontal axis, in both the panels, we measure the labour units. Let the pre-emigration application of labour units be OL_1, where, L_2L_1 units of labour are disguised unemployed. Now, if the emigration leaves at least OL_2 units of labour, the average product (AP) increases from L_1A_1 to L_2A_2. The marginal product (MP), however, still remains at zero with total product (TP) remaining unchanged. In this situation, a typical peasant family, from which some members have emigrated, would not hire wage-labourers. So, wage (for the family-labour), which is equal to the AP, increases for each member of the peasant family and no employment is created for the wage labourers.

Now let us consider the case when emigration takes away a sizeable proportion of the agricultural labour force, so that domestic agriculture confronts a shortage of family-labour. Suppose, emigration leaves OL_3 units of labour, AP increases to L_3A_3 and MP to L_3M_3 ($L_3M_3>0$). TP, however, falls to L_3T_3, as shown in Figure 5.1. The migrant sending peasant family can respond to this falling total product by raising labour units, which can be done either by devoting more labour-hours themselves, or by hiring in wage-labourers. Whatever the way out may be, if they can increase labour input to OL_4, ideally TP would rise to L_4T_4, leading to a fall in AP and MP to L_4A_4 and L_4M_4 respectively. However, it is possible that labour efficiency falls, either due to overwork by the household members or due to inefficiency of wage labourers, possibly due to inexperience or due to lack of involvement.

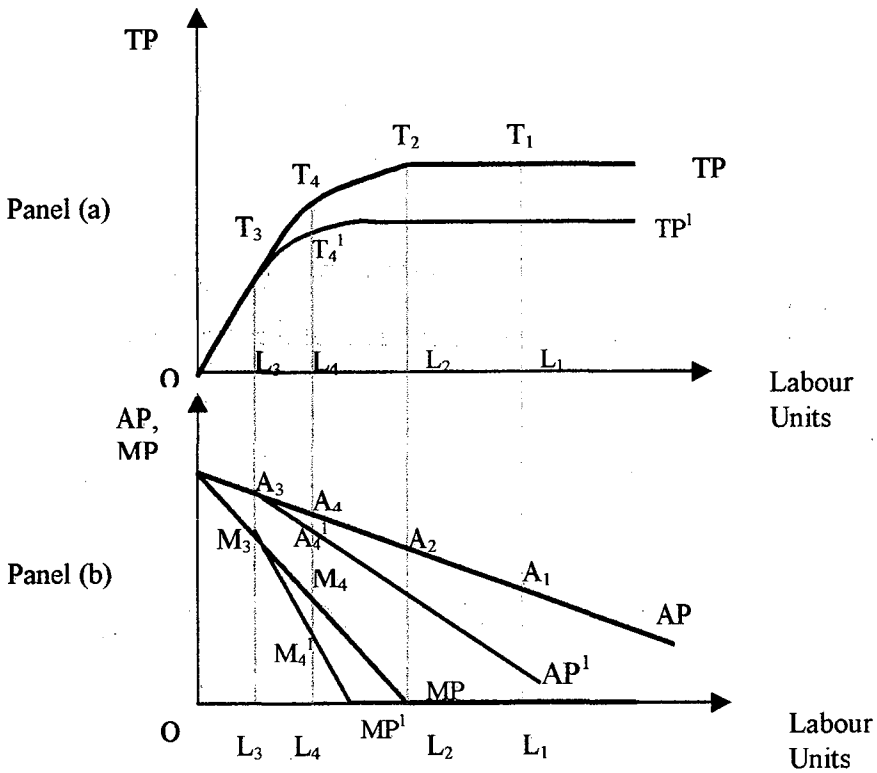
TP
Panel (a)
T2
T1
T4
TP
T3
TP1
T4 1
O
L3
L4
L2
L1
Labour
Units
AP,
MP
Panel (b)
A3
A4
M3
A4 1
A2
A1
M4
AP
M4 1
AP1
MP
O
L3
L4
MP1
L2
L1
Labour
Units

Figure 5.1

Therefore, the TP curve would tilt downward from the point T_3 (as shown in Figure 5.1) to TP^1 and as a result, an application of OL_4 units of labour will produce only $L_4T_4^1$ units of output, which is less than L_4T_4. The AP and the MP curves would also tilt downward from the points A_3 and M_3 respectively. This would result in a fall in AP to $L_4A_4^1$, which is below L_4A_4. MP would also fall to $L_4M_4^1$, which is below L_4M_4. Therefore, though emigration pulls up the MP of labour and hence the wage rates of the hired labourers, labour substitution to raise output to the pre-emigration level reduces it to a level below what it otherwise would have been. On the other hand, if the peasant families do not use hired-labour, the AP of family-labour would rise above the pre-emigration level, but the extra effort associated with the endeavour to raise output to the pre-emigration level would push the AP below what it, otherwise, would have been. If, however, the peasant families use both family-labour and hired-labour, the final effect on the average return to each member of the peasant household (which is his/her share of output, net of wages) remains ambiguous and depends on the exact form of the production function.

In contrast, if the peasant households substitute the reduced labour units by capital and use only OL_3 units of labour, it may result in a rise in labour productivity, thereby increasing AP and MP above L_3A_3 and L_3M_3 respectively. TP would, therefore, rise above L_3T_3, due to a possible upward shift of the TP curve.

Now let us relax the third assumption, i.e. the emigrants and the non-emigrating villagers have the identical preference pattern in the income-leisure space. According to Lipton, emigrants almost certainly, prefer income to leisure,[3] as compared to the non-emigrants. At any given wage, emigrants prefer income to leisure in the sense that they are more willing to take risks and incur current cost, in order to find jobs, which bring more

[3] This is true for migrants, at least before they migrated. Return migrants are sometimes observed to be reversing the preference.

income and leisure in future. Often, migrants are seen to be more enterprising than others. As the migrants with these attributes leave the agricultural sector, agricultural productivity of the remaining villagers falls. This effect can, in fact, outweigh the favourable effect of migration, on the agricultural labour market.

Dropping the second assumption, (i.e. the ratio of migrants to non-migrants is identical across all age groups, for both sexes and at each level of education and income) would bring our analysis a bit more close to reality. Emigration processes, from the poor rural areas of Africa, South Asia and Southeast Asia, suggest that, it is highly selective and biased in favour of young men.[4] Withdrawal of young men, who are obviously more productive, more innovative and more dynamic than others, leaves the rural sector with a smaller average and marginal product, in the short-run and possibly with an agricultural stagnation in the long-run. Decrease in land utilisation is, in part, a direct consequence of this.

Relaxation of these two assumptions would bring in a downward shift in the AP and MP curves. The magnitude of the shift depends on the magnitude of positive externality that the emigrants had on the household. If emigration leaves more than OL_5 units of labour, this downward shift of the AP and MP curves would result in an increase in disguised unemployment by the amount L_2L_5 for the peasant family, as shown in Figure 5.2. On the other hand, if emigration is large enough to leave only OL_3 units of labour, so that there is less than 'optimal' number of labour then, there exist no disguised unemployment. In that case, wage for the family labourer would rise, but would be less than what it would have been if migrants were a homogeneous group. In an extreme case the AP can drop even below the pre-emigration level values.

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[4] Lipton (1980), Sassen (1978), Stahl (1986)

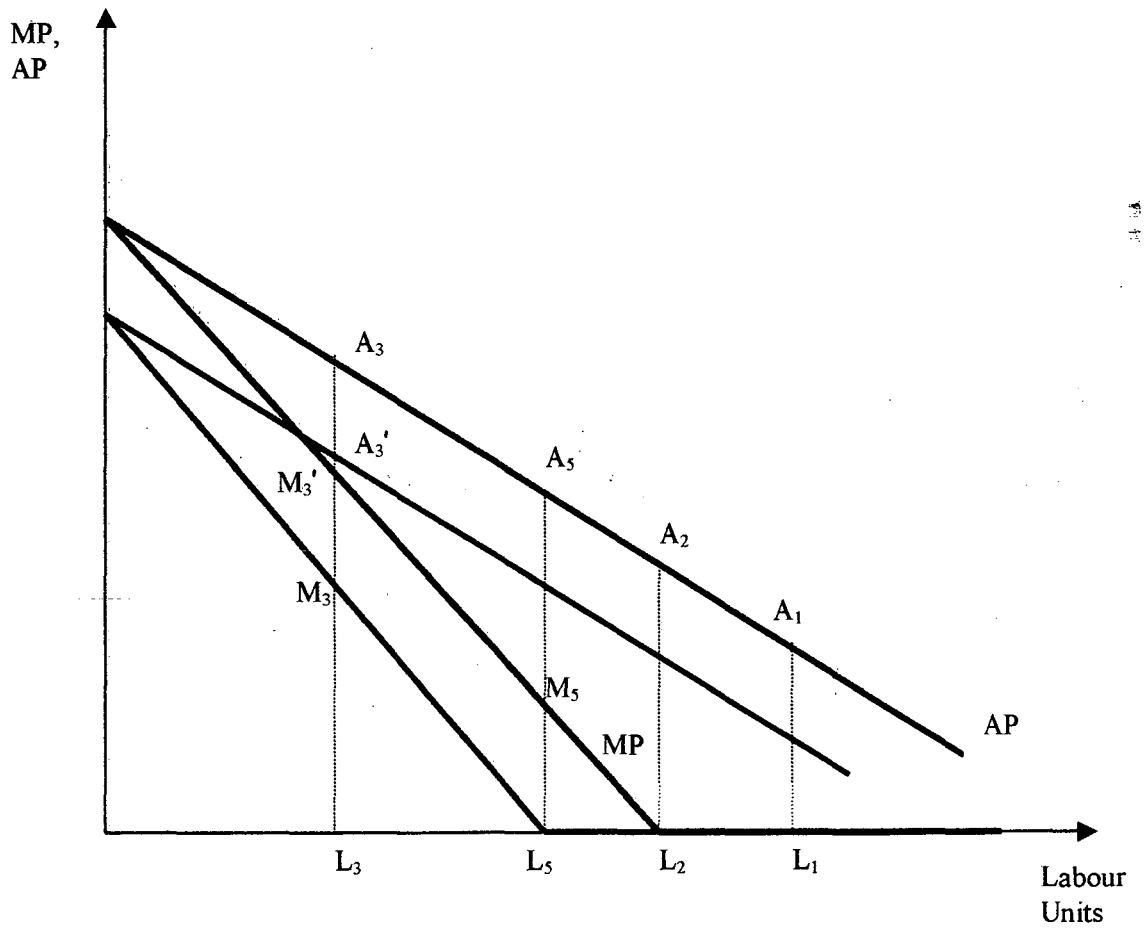

Figure 5.2

Now if we drop the first assumption, and accept that emigrants send remittances, its effect on the rural economy becomes more indeterminate. There can be two opposite effects. Firstly, remittances can allow the migrant sending households to achieve a given standard of living with a lower agricultural income and hence, a lesser effort on cultivation. Thus, productive activity shifts from the local labour market to the foreign labour market. This factor is as responsible for reduction in land utilisation, as is the withdrawal of young men from the work force. In such a case, our diagrammatic analysis would register a downward shift in the TP, AP and MP curves, similar to the case where we dropped the second and the third assumptions (as shown in Figure 5.2.).

It is sometimes argued that receipt of remittances causes a decrease in the land use by migrant sending households, which consequently reduces agricultural productivity. It may so happen that a remittance-receiving household actually reduces land use. But a decrease in land use by the migrant sending households does not mean a decrease in land use by the overall regional economy. It is most likely that the migrant sending households would hire out or sell out the piece of land, which they would not cultivate, to some villager who is willing to do so.

The second possible effect of receipts of remittances, on the agricultural labourers, is a positive one. With imperfect rural capital markets, in LDCs, remittances might ease out the financial constraints to pay for physical capital and thereby allow embodiment of technological progress in cultivation. This can certainly raise the output and hence, the AP and MP labour. In terms of our diagrammatic representation, it would shift the TP, AP and MP curves upwards, respectively, as opposed to the downward shift in the previous case. The direction of the shifts and the effects are diametrically opposite to the previous case. We are not representing it in a separate diagram

Given these two opposite effects of remittances, on rural productivity, it is the comparative dimension of each of them that would determine the actual change in rural agricultural productivity and the consequent changes in agricultural wages. Evidences in most of the remittance receiving countries, however, show that remittances are mostly used for consumption, purchase of consumer durables, construction and repairing of houses and speculation on real estate, and only a small part of it is used on agricultural capital goods. In that case the ultimate effect on labour productivity, wage and employment in the agricultural sector will depend on the relative proportion of remittances spent on consumption, construction of buildings, speculation on real estates and on productive investment in agriculture.

It should be mentioned that, throughout the discussion we have not considered agricultural wage fixation. Consideration of fixed agricultural wages would resist the fall in wages of landless agricultural workers, wherever it occurs otherwise.

Before we go onto the real world experiences regarding the consequences of emigration on the labour market, let us briefly go through the theoretical discourse, on the impact of emigration on the non-agricultural labour market, which we differentiated from the agricultural labour market on basis of structural formation.

5.2.b. *Impact of Emigration on Non-agricultural Labour Market:*

We differentiate the non-agricultural labour market from the agricultural one, since, the former, unlike the later, is a fully formed labour market. In such labour markets, wages are fixed in the following two alternative ways. Either, market forces throw up the equilibrium wage rate, leaving the market cleared, with no involuntary unemployment or the wages are fixed, with a downward rigidity, which gives rise to involuntary unemployment. In this sub-

section, we would attempt a review of a set of literature, which discuss the implications of emigration on employment level and wage rate, in both of the above mentioned cases.

According to the 'Stolper-Samuelson theorem', a reduction in the supply of or an increase in the demand for a factor in a country raises its nominal returns. In case of labour, international migration can be viewed as a reduction in the country's labour endowment. This should result in an increase in wage rate, in a situation where wage is determined only by interaction of market forces. In case there is a downward rigidity of the wage, emigration is expected to reduce unemployment, provided the trade unions have limited bargaining power to restrict new employment. However, changes in wage level or employment level are noticeable only if the portion of the emigrating labour force is not too small compared to the overall supply of labour. This conclusion follows from the following assumptions:

1. Labour and other factors are perfectly mobile across sectors.
2. Factors, other than labour, are perfectly immobile across borders.
3. Labour force is a homogenous group.
4. Production is subject to constant returns to scale.

While increase in 'nominal' wages as a result of emigration, under these assumptions, is an 'unambiguous' neoclassical prediction, the effect on real wages is ambiguous or to be precise 'conditional'. Thompson (1984), Rivera-Batiz (1984) and Quibria (1989) analyse the effects of emigration on 'real' wages, under the general assumption of presence of both traded and non-traded goods sectors. The non-traded goods are assumed to be labour intensive. This assumption is made, keeping in mind the various kinds of services that are labour intensive in nature and cannot be traded. Now, as a result of emigration, two forces act simultaneously on the prices – one through supply side and the other through demand side. On one hand, emigration and the consequent fall in supply of labour reduces output. In case of traded goods, this fall in the output can be compensated by imports. But in case of non-traded goods

sector, especially in case of labour intensive services like that of a physician or an academician, emigration from that sector would result in a persistent reduction in the output and may leave the market with an excess demand. On the other hand, emigration leads to a reduction in the demand for both traded and non-traded goods. In case of traded goods, international trade can adjust for any supply-demand imbalance. However, it is not possible in case of non-traded goods and any such imbalance is supposed to persist. Price of the non-traded good will rise if the fall in supply outweighs the fall in demand, and vice-versa.

Thompson (1984) shows that the ultimate effect of emigration on real wages depends negatively on the labour's share of consumption of the non-traded goods, through a reduction in its demand and the consequent downward pull on prices, and positively on the elasticity of the nominal wage, with respect to change in price of non-tradables.

The precise relation is,

$$\hat{w} = \left(\beta_{LN} - \theta_N^L\right)\hat{P}_N \qquad (5.2.1)$$

where, $\hat{w}$ is the proportionate change in real wages,

$\hat{P}_N$ is the proportionate change in the price of non-tradables,

β_{LN} is the elasticity of nominal wage, with respect to prices of non-tradables.

θ_N^L is the consumption share of non-tradables in wages, such that, $0<\theta_N^L<1$.

For a given proportionate change in price of non-tradables, real wages will proportionately change in the same direction, iff, $\beta_{LN} > \theta_N^L$.

Quibria (1989), however, shows that the elasticity of nominal wage, with respect to prices of non-tradables is greater than unity, i.e. $\beta_{LN} > 1$. Each of the traded good, T, and the

non-traded good, N, are produced by two factors – labour, L, and capital, K. In Quibria's analysis, it was mathematically shown that,

$$\beta_{LN} = \frac{\theta_{KT}}{\theta_{LN}\theta_{KT} - \theta_{LT}\theta_{KN}} \qquad (5.2.2)$$

where, θ_{ij} gives the share of return of the i^{th} factor in the price of the j^{th} good, i.e. $\theta_{ij} = \frac{w_i c_{ij}}{P_j}$

w_i is the is the return to the, i^{th} factor,

c_{ij} is the is the amount of the i^{th} factor required in production of the j^{th} good,

P_j is the price of the j^{th} good.

i = (L,K) and j = (T,N).

Since, there are only two factors of production, it follows from the definition of θ_{ij} that,

$$\theta_{LN} + \theta_{KN} = 1 \qquad (5.2.3a)$$

and, $$\theta_{LT} + \theta_{KT} = 1. \qquad (5.2.3b)$$

Quibria assumes that the non-traded good, N, is more labour intensive, compared to the traded good, T. Therefore, it follows that,

$$\theta_{LN} > \theta_{LT}, \qquad (5.2.4a)$$

and, $$\theta_{KT} > \theta_{KN}. \qquad (5.2.4b)$$

Substituting (5.2.3a), (5.2.3b), (5.2.4a) and (5.2.4b) in (5.2.2), Quibria showed that $\beta_{LN} > 1$. Given that $\beta_{LN} > 1$, and $0 < \theta_N^L < 1$, β_{LN} is always greater than θ_N^L, and therefore, real wages rise (fall), in the net, if the price for non-traded goods rise (fall), due to emigration of labour force.

Both Thompson (1984) and Quibria (1989) assumed that wage is freely determined by market forces. Now, if the wages are fixed with a downward rigidity, emigration and consequent rise (or fall) in prices of non-traded goods will result in an increase (decrease) in

derived demand for labour and hence, a fall (or rise) in unemployment level, provided trade unions have limited bargaining power to raise wages or resist new employment.

The analysis represented above, holds under the four neoclassical assumptions mentioned earlier. Now let us discuss some other expositions, which drop some or the other of these assumptions, and analyse the consequences on wage and employment level.

First, let us drop the assumption of *homogenous labour force*, keeping the other assumptions intact. Rivera-Batiz (1984) considers the entire labour force to be divided between two groups. Each group is supposed to be endowed with different amounts of capital and labour. This capital may be 'physical' or 'human'. In a completely developed capitalistic labour market, labourers do not hold 'physical capital'. However, high-income labourers often accumulate physical capital. Therefore, it is realistic to take labourers to be differentiated by levels of 'human' and 'physical' capital. Emigration of skilled labour, with no physical capital, may lead to a drain of human capital and emigration of high-income labourers may lead to a drain of physical capital from their country of origin. Rivera-Batiz terms this as 'bundled emigration'. Such 'bundled emigration' can actually reduce 'nominal' and 'real' wage.

If labour, possessing higher level of physical or human capital, emigrates, the economy's aggregate capital-labour ratio reduces. This, in turn, pulls down the wage rental ratio. In presence of complementerity of two types of labour, bundled emigration can actually displace unskilled labour, like any withdrawal of capital, and push down money wages if wages are market determined. As a result, both the 'nominal' and 'real' income of domestic unskilled labourers may fall with emigration, provided that the share of their income on account of holding of capital is small, which is, in fact, highly plausible.

With the emigration of skilled-labour, unskilled labour gets displaced if there is complementerity between the two types of labour. Moreover, whether there is complementerity between the two types of labour or not, emigration of skilled labour creates a vacuum which, in turn, creates a demand for skilled labour. The unskilled labourers may fill this vacuum if they can educate themselves and acquire skill. Rivera-Batiz, however, does not consider the possibility of skill acquisition by the unskilled labourers. In an earlier discourse, Bhagwati and Hamada (1976) considered this possibility in a circumstance of 'State financed' education and, in a comparative static framework, analysed the effect of emigration of 'educated'[5] labour on wage and employment. In their model they considers a situation where labour is divided between 'educated' and 'uneducated' and the division is affected by the wages paid to the two kinds of labour. They assume that the two types of labour enter the production process of two different sectors. This means that there exist no complementerity between skilled and unskilled labour in the model of Bhagwati and Hamada. It is also assumed that there is a positive inducement to get educated, as long as the expected wage for 'educated' labour exceeds the expected wage for the 'uneducated' ones.

Expected wages for the two sets of labours, 'educated' and 'uneducated', are given by the respective average wages as,

$$Ew_1 = \bar{w}_1\left(\frac{L_1}{N_1}\right) \qquad (5.2.5.a)$$

and, $$Ew_2 = \bar{w}_2\left(\frac{L_2}{N_2}\right) \qquad (5.2.5.b)$$

Where, $\bar{w}_1$ is the real wage of educated labour, fixed by international emulation and associated union fixation or wage legislation.

[5] Bhagwati and Hamada used this term. It carries the same sense as skilled labour, endowed with human capital.

$\overline{w}_2$ is the real wage of uneducated labour, fixed by the 'leap frogging'[6] process.

L_1 and L_2 are employed educated and uneducated labour respectively.

N_1 and N_2 are total pools of educated and uneducated labour respectively.

Now, so long as, $Ew_1 > Ew_2$, there exists positive inducement to get educated. The equilibrium division of labour is reached when,

$$Ew_1 = Ew_2 \qquad (5.2.6)$$

This equilibrium makes sense if it is assumed that the 'State' undertakes the cost of education, and not the labour itself. Until the equilibrium condition given by (5.2.6) is reached, there would exist a positive effective demand for 'state financed' education, to convert uneducated workers into educated ones.

Now let us consider the effect of emigration of educated labour in such a set-up. Here if we assume that the emigration is not wage-induced and hence, it leaves the sectoral expected wages unaffected, then emigration does not affect the division of labour into the two types, so long as migration still leaves some educated labour unemployed. However, if we assume that the expected wage to the educated labour improves with emigration, then the division of labour no longer remains unaffected. Emigration of skilled labour, to higher wage areas abroad, may lead to a higher expected wage for educated labour in the following two alternative ways.

1. Emigration of educated labourers may be treated as a reduction of unemployment, in the market for educated labour. The expected wage for educated labour is, therefore, raised via the rise in the probability of getting a job. Suppose, the number of educated labourers,

[6] The leap frogging process means that the lowest wage tends to get pulled up by the higher wage, while being downwardly rigid.

who have emigrated, is Z. So, the expected wage increases from, $\frac{\overline{w}_1 L_1}{N_1}$ to, $\frac{\overline{w}_1 (L_1 + Z)}{N_1}$.

This is called '*incremental-employment-effect*'.

2. Emigrants are assumed to earn a differentially higher wage, which affects the expected wage. This may be called the '*incremental-employment-and-differential-wage*' variant.

In the case of '*incremental-employment-effect*', the equilibrium division of labour is determined by the following condition.

$$\frac{\overline{w}_1 (L_1 + Z)}{N_1} = \frac{\overline{w}_2 L_2}{N_2} \tag{5.2.7}$$

Where, $(N_1 + N_2) = \overline{N}$, is constant, and L_1 and L_2 are invariant to changes in Z. Differentiating equation (5.2.7), with respect to Z, and substituting the equilibrium condition in it, we get,

$$\frac{dN_1}{dZ} = \frac{N_1 N_2}{(L_1 + Z)\overline{N}} \tag{5.2.8}$$

The condition (5.2.8) implies that, emigration of 'educated' labourers induces the 'uneducated' labourers to join the 'educated' group and thereby increases the supply of 'educated' labour. This influx in the supply of 'educated' labour increases the unemployment of 'educated' labour.

In the case of '*incremental-employment-and-differential-wage*' variant we assume that the labour force takes into account the foreign wage ($\overline{w}_f$) at which the emigrants are hired, in deciding whether to get 'educated' or not. Thus, the expected wage for the 'educated' workers becomes,

$$Ew_1 = \frac{(\overline{w}_1 L_1 + \overline{w}_f Z)}{N_1} \tag{5.2.9}$$

Following similar procedure, as in the previous case, and by some algebraic manipulations, we get,

$$\frac{dN_1}{dZ} = \frac{\overline{w_f} N_1 N_2}{N\left(\overline{w_1} L_1 + \overline{w_f} Z\right)} \qquad (5.2.10)$$

The change in the size of the educated labour force will readily exceed the number of emigrants if, $\overline{w_f}$ is large enough, relative to $\overline{w_1}$. Therefore, if the high wage rates in the foreign countries are taken into account, it is quite possible that unemployment, both in absolute and relative senses, would rise for both types of labour.

So far, this model takes the wage rate for skilled labour as fixed by wage legislation in LDCs and assumes that the 'State' finances the education of people. These two assumptions are sources of market inefficiencies in the model. Relaxing the assumption of fixed wage, let us suppose that wages are vulnerable to emigration. Consequently, with emigration of educated workers, $\overline{w_1}$ would rise and would pull up $\overline{w_2}$ through a leap-frogging process. Thus the effects of emigration, on employment and supply of educated labour, can be decomposed as the sum of the following two effects:

- The direct effect of emigration, keeping wage levels constant.
- The indirect effect of resulting wage increases for the educated labour and the induced effect on the wage for uneducated labourers.

If we further assume that the labour herself, and not the 'State', undertakes the cost for education, then we would have reached the standard Pareto-optimal equilibrium.

Bhagwati and Hamada (1976), consider the possibility of conversion of the 'uneducated' labour into 'educated' ones and thereby filling-up of the vacuum created by the emigration of 'educated' labour. Their model shows that, as a result of emigration,

Bhagwati and Hamada (1976), consider the possibility of conversion of the 'uneducated' labour into 'educated' ones and thereby filling-up of the vacuum created by the emigration of 'educated' labour. Their model shows that, as a result of emigration, unemployment rate of 'educated' labour may rise. Although, in their model, the wage of the 'educated' labour may rise with emigration because of internationalisation of 'educated' labour, which ties up the domestic wage to the international market.

Bhagwati and Hamada did not consider the possibility of complementerity between 'educate' and 'uneducated' labour. However, intuitively it seems that such consideration will only strengthen their basic result. If there is complementerity between the two types of labour then, emigration of the employed[7] 'educated' labourers will displace some 'uneducated' labourers from their jobs. This will result in a larger difference between the expected wages of the two types of labour and, in turn, will induce a stronger incentive to get 'educated' for the 'uneducated' ones. This process of skill acquisition, in presence of complementerity, will not only increase employment of 'educated' labour but will also reduce unemployment of 'uneducated' labour by creating new jobs for them. This is, however, only an intuitive exposition and one should go through a rigorous treatment before jumping into any conclusion.

Next, we drop the assumption of *constant returns to scale.* Rivera-Batiz (1989) examines the effect of emigration on real wages in the presence of increasing returns to scale (IRS) in production. Incorporation of IRS, through internal economies of scale at the firm level, gives rise to imperfect competition. Thus the assumption of perfect competition, in the market structure is rejected. Each firm is assumed to supply differentiated products in an oligopoly or oligopolistic competition where 'entry' is free. Each oligopolist is considered to

[7] Complementerity between two types of labourers essentially means that the educated labourers were employed before migration.

act strategically in a Cournot-Nash fashion, conjecturing that rival firms will not alter their output in response to changes in the firm's own price.

Labourers are assumed to constitute a homogenous group, owing no capital. When the economy undergoes emigration of labour, it pushes up the nominal wages, raising unit labour cost of the firms and consequently the prices of non-traded goods. In addition, some producers of the non-traded goods leave the market, giving rise to greater monopoly power to those who remain. These firms increase their mark-ups and the end result may be the prices of non-traded goods increasing faster than the nominal wages. However, emigration shifts the demand curve, for non-traded goods, downward, which, in turn, exerts a downward pressure on the prices of these goods. On the net, the mark-up will depend negatively on the size of the emigrant labour force, share of non-traded goods in the consumption basket of the economy and on the number of firms operating in the market. However, in presence of downwardly rigid wages, emigration may reduce unemployment.

Finally, let us drop the assumption of *immobility of other factors across international borders*. Gerking and Mutti (1983) shows, in a static general equilibrium framework that, if capital is mobile across borders emigration may lead to decrease in employment opportunities and wages in the home country. It is assumed that, skilled labour is, initially, much more readily available in DCs and the proportion of skilled labour is smaller in the LDCs. Under the assumptions of constant returns to scale and perfectly competitive commodity and factor markets, higher wage in the DCs attracts a pool of unskilled workers from LDCs. The key causal factor is this ready availability of labour, both skilled and unskilled, in the DC, which attracts capital as well, out of the LDCs. Whether this capital movement leads to a fall in wages and employment opportunities in the source country, depend upon the initial assumptions of flexible and rigid wages. If the wages are market determined, the final wage rates, in both the countries, depend on the relative capital-labour ratio. The resulting wage

differential may be greater or smaller than the initial difference, depending on the capital-labour ratios, in the two stages, in the two countries. The standard neoclassical prediction of narrowing of wage-gap, therefore, does no more remain obvious. If the wages are downwardly rigid, such outflow of labour and capital results in a fall in the employment opportunities in the LDCs.

Before concluding this sub-section, it would be useful to sum up the theoretical discussion regarding the effects of emigration on wages and employment, in the non-agricultural sector. We have chosen to discuss some theoretical works, each of which discuss the labour market implications of emigration. We initiated the discussion with models that take into account all the four neoclassical assumptions, which we jotted down at the beginning of this sub-section. Later we moved on to discuss some other models, which qualify to relax some or the other of the traditional assumptions associated with neoclassical trade theory. Though it would be a useful exercise to relax the assumption of perfect inter-sectoral mobility of factors, neither of the models, discussed in this sub-section, do so. Therefore it is not possible to come to any conclusion on the possible implications on wage and employment levels of the non-agricultural sector. In order to arrive at any conclusion, in a framework that resembles the real world, the traditional assumptions should be relaxed, all at a time. Unfortunately, neither of the models, discussed here, do the same. However, each of them gives some conditional results. The results are summarised as follows.

Given the neoclassical assumptions, emigration raises money wages if the wages are determined by interaction of market forces. If the wages are downwardly rigid and trade unions have limited bargaining power, then emigration is expected to increase employment. While the effect on money wage is 'unambiguous', under these assumptions, the effect on real wage is 'conditional'. Real wage will rise, along with a rise in the price of the non-traded

goods, only if elasticity of money wage with respect to price level of the non-tradables is greater than unity.

Traditional theory assumes that labour is homogenous. If, however, labour is heterogeneous and divided between skilled and unskilled categories, emigration of skilled labour would reduce the wage rate of the unskilled labour, either due to complementerity in use of skilled and unskilled labour, or due to falling capital-labour ratio.[8] In a rigid wage situation with heterogeneous labour force, if an inducement for upward mobility into the skilled sector, via education, is considered, emigration of skilled labour results in a rise in the rate of unemployment of skilled labour and a fall in the rate of unemployment of unskilled labour, provided that emigration induces upward mobility of labour at a larger volume, compared to the volume of emigration.

If production is subject to increasing returns to scale and labour is homogenous, emigration results in a rise in the nominal wages. The real wages, however, tend to fall, as presence of increasing returns in production induces monopoly pricing. The effect on employment is possibly negative.

Traditionally it was assumed that the factors of production (other than labour) are perfectly immobile across international borders. In a perfectly competitive commodity and factor market where production is subject to constant returns to scale and wages are flexible, perfect mobility of capital and labour from the developing countries to the developed countries results in reduction of wage rates in the developing country. If, on the other hand, the wages are downwardly rigid, such factor movement results in a fall in the employment opportunities in the developing country.

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[8] It is assumed that the skilled labour possesses either human capital, or physical capital. Emigration of skilled labour, therefore, results in a reduced capital-labour ratio.

The models discussed so far, in this section, do not consider the demand constraints that may operate on the volume of emigration. It is implicitly assumed in these models that there is an infinite demand for labour in the destination countries, so that reduction in the pressure of unemployment at the origin, if at all possible, can actually take place and emigration successfully acts as a 'safety valve'. However, if we consider a constraint on the demand for immigrant labour in the labour importing countries, action of the 'safety valve' is limited by the volume of immigration allowed by the labour importing countries. If this volume is too small, emigration will fail to act as a 'safety valve', even if other conditions are favourable.

Apart from the quantitative impact on the levels of wage and employment, emigration has an impact on the quality of skills, available in the home country's labour market. Emigration, especially that of high-skilled professionals, almost inevitably takes place among the qualitatively 'best', who is accepted and can successfully compete in the job market of a different country. Replacement by the 'second best' causes the source country to suffer in terms of quality of the labour force.

A capital scarce labour-exporting country, when confronted with emigration of skilled labour, may find itself in a situation of skill shortage, if that particular skill is in demand within the country. In case a skilled labourer is complementary in production to a set of unskilled labourers, emigration of that skilled labourer would, instead, generate unemployment for unskilled labourers. The skill-shortage is felt more acutely in such a case. Given that all labour-exporting countries are highly populated, it is not difficult to substitute for the unskilled or semi-skilled migrants. However, it sometimes becomes difficult to substitute for skilled labour and can be done only with a time lag, which is required to train the unskilled ones to attain that skill level. In such a situation, the country has to incur the costs of training and education, in order to fill the vacuum created by emigration of skilled

labour. Emigration, thus, creates a condition for privatisation of benefits and socialisation of costs. The social costs of emigration of skilled labour can be measured in various ways. It includes costs in terms of loss of output, imputed capital outflow etc. In terms of the labour market implications, social costs are incurred in the form of capital outflow, as the country had to incur 'historical' costs of education and training of the emigrant. At the same time, the country had to incur costs in the form of training and education, which is required to replace the skill shortage.[9]

It is difficult to estimate whether emigration can actually act as a device to reduce the pressure of unemployment in a populated labour-exporting country. The preceding discourse suggests that the working of the 'safety valve' is conditional. Under strict neoclassical assumptions it may function smoothly. But this possibility reduces, if those assumptions are dropped. Absence of demand constraint, on the volume of emigration, is another important factor behind the successful operation of the 'safety valve'. Emigration can function as a 'safety valve', given that all other conditions are favourable, if and only if there are no constraint on emigration on the demand side. Other than operating as a 'safety valve' emigration of skilled labour creates skill shortages. Emigration of skilled individuals, which may create a shortage of skill in particular sectors, manifests itself in rising wages.

The theoretical discussion regarding the consequences of emigration on the labour market of the sending country is incomplete without an investigation about the real world experiences. A complementary discussion of the experience of labour-exporting countries, in general, and India, in particular, follows in the next section.

[9] For a detailed discussion on the social costs and benefits of emigration, see Bhagwati (1976).

5.2 Evidences of Labour Market Experiences:

This section will present evidences of labour market experiences of labour-exporting countries. With the evidences available in economic literature we will try and discern whether emigration from these countries could actually play the role of a 'safety valve' against the population pressure and labour force growth and, to what extent it created skill shortages in these countries. It would have been appropriate if the theoretical literature that we discussed in the earlier section could be verified empirically. But it is difficult and nearly impossible to do so without data at a disaggregated level, which is not readily available. The available empirical literature estimates the role of emigration in reducing unemployment pressure, by the aggregate volume of emigration, relative to the unemployed workforce. In section 5.2.a. experience of a few labour-exporting countries will be presented. Experience of India, in this regard, will be presented in section 5.2.b.

5.2.a *Experiences of Labour-exporting countries:*

It is difficult to estimate whether the 'safety valve' actually worked in different labour-exporting countries, or not. The extent to which migration reduces unemployment pressures is assessed from comparative estimates of the proportion of migrants and the number of unemployed in total workforce. Such unemployment estimates for most countries do not reflect the changing pressures on the domestic employment situation. A number of factors can affect the estimates. Firstly, emigration from the 'non-economically-active' population would not figure in the estimates of reduction in unemployment. E.g. in Srilanka, almost 40% of the total emigrants, to the Gulf, were housemaids[10], whose emigration would not reflect in the unemployment estimates. Secondly, there may generate some 'encouraged

[10] Rashid Amjad, 1989.

workers', who would, otherwise, not be actually seeking job in the labour market, join the labour force in response to higher wages and labour shortages, which are immediate consequences of emigration. Since, for most countries, estimates on employment are taken only over the organised sectors, the entry of these 'encouraged' workers in the unorganised labour market would not be reflected in the employment estimates.

Even though there are obvious limitations of measuring the contribution of emigration, in reducing the unemployment pressure, by the relative proportion of emigrants and unemployed in total workforce, this is the most common way of doing so. Most writers[11] are of the opinion that labour exports to the Gulf acted as a 'safety valve', in face of increasing population pressure and labour force growth, especially at a time when most economies faced a serious recession in the late 1970s and early 1980s. Probably this conclusion was made in view of the large proportion of emigrants, compared to the number of unemployed in total workforce.

The significance of emigration, as a device to curb unemployment, is heavily dependent on the size of the emigrant population, compared to the population of the country. In countries with not so large population, e.g. Philippines, Thailand etc. the significance is considerable. Over the period 1980 to mid-1982, growth in labour export accounted for 9.8% of total employment growth in Thailand. In Philippines, the corresponding figure was 5.5%, during 1978-1983.[12]

As we have noted, such estimates do not completely reflect the extent to which migration acted as a 'safety valve' in these countries. Proportion of emigrants in total workforce or employment does not reflect whether emigration acted as a 'safety valve' to the unemployment pressure, or created skill shortages in some particular sectors.

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[11] Rashid Amjad (1989), Saith (1989).
[12] Stahl, 1986.

The immediate impact of skill shortage in the affected industries is expected to be manifested in an increase in money wage for skilled labourers. Almost all countries, exporting labour to the Middle East, with the sole exception of Philippines, which was going through a major recession, experienced a rise in money wage rates, as a result of emigration. Pakistan, where emigrants accounted for a significant proportion of the labour force, experienced an overall rise in wage rates, including that of rural labour force, in the late 1970s and early 1980s.[13]

Skill-shortages among the countries, exporting labour to the Gulf, were most accurately felt in the construction sectors of the respective countries. In Srilanka, average daily money wage, in construction sector, increased by 65% to 70%, during 1979-81, while, in this period, average price index went up by 49%. In the Republic of Korea, the rate of wage growth, in the construction sector, outpaced that in other sectors, during the late 1970s.[14] In Bangladesh, these localised increases were observed in agricultural wages.

Apart from wage increase, which is the direct consequence of emigration, there are some indirect consequences as well. Skill-shortages, combined with rising wages, often lead to the adoption of capital-intensive techniques, if possible. Many countries, especially those exporting labour to the Gulf, had, in fact, resorted to these labour-saving techniques, largely in construction sectors, in selected processes in the manufacturing sector and sometimes even in the rural sector, which is manifested in increasing mechanisation of agriculture. However, such changes in the factor intensity are not always a one way change. E.g., as Amjad (1989) mentioned, in Pakistan, tractor mechanisation drastically slowed down after the peak emigration in the period 1978-82.

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[13] Gilani, 1988

[14] Rashid Amjad, 1989.

Evidences on the experience of the agricultural labour market, available in the literature, are meagre. They are available mostly on the extent of land use and workforce participation, before and after the years of heavy emigration.[15]

We have noted earlier that emigration and receipt of remittances can result in a drop in workforce participation and land use. Considerable drop in agricultural workforce participation actually occurred in Turkey, Thailand and Pakistan, as a result of receipts of remittances, after commencement of heavy emigration[16]. Yugoslavia experienced a sharp fall in land use between 1969 and 1971, a period of high rate of emigration.[17] Reduction in the use of land dampens the possibility of employment creation and thereby, hinders the functioning of the 'safety valve'. But it should be noted that a decrease in land use by the migrant sending households does not mean a decrease in land use by the entire regional or overall economy. It is most likely that the migrant sending households would hire out or sell out the piece of land, which they would not cultivate, to some villager who is willing to do so. For example, evidences in Thailand show that there had been a change in land tenure and land holding status among villagers.[18] The Yugoslavian experience of sharp decrease in overall land use can be justified in two ways. The first possibility is that the villagers had a tendency to cling to their land and not to sell them out, even if they stop cultivating it. The other possibility is that the migratory flows took such a dimension that land really did not remain as scarce as otherwise, so that the villagers had no option other than just to leave the land unused.

It is difficult to conclude, from the evidences presented above, whether emigration released the unemployment pressure in various labour-exporting countries or not. It can only

[15] The evidences narrated in this section are to supplement the theoretical understanding of the previous section. However, the evidences covered in this section are not exhaustive given our limited reach.

[16] Stahl, 1986.

[17] Sassen, 1978.

[18] Stahl, 1986.

be said that for countries with not-so-large population, proportion of migrants to the total workforce was high and therefore migration possibly released the unemployment pressure in those countries. Heavy emigration from particular sectors in some countries manifested in sharp wage increases while some others experienced adoption of capital intensive techniques.

5.2.b *Labour Market Experience in India*

In the last few decades there had been two major emigration flows from India. A migration flow of skilled professional workers was directed towards the advanced industrialised nations, namely the UK, USA and Canada, which was permanent in nature. The other migration flow of unskilled and semi-skilled labourers, which was temporary in nature, began in the 1970s and was directed towards the oil producing countries of Gulf.

Table 5.1 shows the proportion of emigrants from India to the USA, the UK and Canada, in the total educated workforce, in the years 1977, 1983 and 1987. Emigrants to the industrialised countries are mostly educated graduates. Therefore, it is worthwhile to take emigration as a percentage of educated workforce and unemployment, in order to estimate how important was this flow in reducing the unemployment pressure created by the educated graduates.

Table 5.1 Emigration of Educated Labour Force, from India, to USA, Canada and UK as Percentages of Employment of Educated Labour & Educated Workforce.

	Emigration as Percentage of		
Year	Total Educated Workforce	Total Educated Employment	Total Graduate Unemployment
1977	0. 54	0. 64	3. 5
1983	0. 49	0. 55	3. 6
1987	0. 38	0. 43	3. 1

Source: Nayyar, 1994.
National Sample Survey (Relevant Years)

It is worth noting that the size of emigration to these countries was not significant compared to the size of total educated labour force or total employment of the educated personnel. However, it is considerably significant compared to the size of the total unemployed graduates. In so far as emigrants were unemployed before their departure and the outflows were not a totally insignificant proportion of unemployed educated workforce, their departure may have had some indirect effect in reducing unemployment, at least, by a small amount. Emigration may, however, had resulted in deterioration in the quality of workforce, since, 'best' among the workforce is expected to emigrate and only the 'second- best' were absorbed in the domestic job market.

Though the emigration to the Middle East was much larger, compared to that to the developed countries of North America and West Europe, its dimensions were marginal when compared to the workforce, employed and unemployed, in the economy as a whole. E.g. in 1981, when emigration to the oil producing countries of the Middle East was at its peak, the labour outflow to these countries was a minuscule 0.13% of the total workforce. However, it constituted 5.5% of the increment in workforce, which is rather significant. In 1990, when emigration through this channel had contracted, the corresponding figures were 0.05% and 2% respectively. As a percentage of total employment of the country, emigration to the Middle East was 0.08% in 1983 which dropped to 0.06% in 1988. As compared to the total reported employment in the organised sector, the corresponding percentages were, 0.94% and 0.66% respectively.[19] It is likely that most of these emigrants were drawn from the pool of underemployed members of the peasant households or unemployed landless agricultural workers, or from the pool of unemployed or underemployed casual workers of the urban sector. Since, in India, there is no data on employment, other than in the organised sectors, it

[19] Nayyar, 1994.

is difficult to assess how far this emigration flow helped to reduce the pressure of unemployment in the unorganised sectors.

However, though the effect on the labour market of the overall economy may not be very significant, there are regional economies from where migration have been considerably high in proportion to the regional workforce. A micro level study in Kerala, by Gulati and Modi (1985) suggest that about 50%, if not more, of the emigrants were unemployed before leaving the country.

These estimations, especially those on unemployment, are subject to serious conceptual and statistical limitations. Nonetheless, the migratory flows from India seem to have acted as a 'safety valve' in reducing population pressure in a modest way. This is not surprising, given the large size of the population.

In a large labour surplus economy like India, there are no macro level evidences that emigration resulted in skill shortage in any particular sector. The existence of skill shortage is likely to be manifested in rising nominal wages. There exist no macro level evidence, in India, which suggest that the nominal wages of skilled workers of any particular sector behaved much differently than those of unskilled workers. The impact was, however, observed to be pronounced in regional pockets of emigration. In India, the localised skill shortages were felt among particular skill categories, in the construction sector of Kerala. The shortage was presumably accentuated by the increase in building and other construction activities, generated by the liberal policy of housing loans followed by various lending agencies.[20] Influx of remittances also played a catalytic role in that construction boom. These two interacting forces resulted in an excess demand for certain categories of construction labourers, which, in turn, pushed up their wages at a rate higher than that of others. It is

[20] Nair, 1989.

difficult to infer whether emigration of skilled construction workers, or the influx of remittances, or the liberal housing loans was responsible for this rise in nominal wage. Probably all three were responsible in differing degrees. As shown in Table 5.2, there was a sharp rise in wages in the construction sector, in the period between 1978-79 and 1983-84, compared to the period between 1973-74 and 1978-79. The increase was comparatively sharper for the urban skilled construction workers.

Table 5.2 Percentage Increase in Wage Rates in Construction, Kerala

Category	1973-74 to 1978-79	1978-79 to 1983-84
Skilled		
Carpenter (construction)		
Urban	64	123
Rural	47	120
Mason (construction)		
Urban	47	124
Rural	64	110
Unskilled		
Male Workers (construction)		
Urban	50	108
Rural	NA	106
Female Workers (construction)		
Urban	64	104
Rural	NA	102
Paddy Field Labour (Rural)		
Male Workers	35	76
Female Workers	41	76

Source: Nair, 1989.

Accelerating wage rates have sometimes resulted in emergence of interregional migration. While suffering from a shortage of skilled workers in some categories of the construction trade, Kerala experienced an immigration flow of construction workers from the adjoining districts of TamilNadu. The reason simply was the wage rate, which was higher than that prevailing in their own districts.

Shortages in these skill categories, such as the construction workers etc. are replaceable within a short gestation period. The costs, in terms of time, expenses on training

and the output foregone during the time taken for training, are not too high. But skill shortages of high skilled individuals are difficult to replace both due to cost and time duration of training, as well as in terms of output foregone. For example, for the different high skilled categories of software professionals, there was an expected skill-shortage as a result of continued emigration to the developed countries.[21]

Emigration, therefore, causes the country to incur social costs in terms of skill shortage. As we had mentioned in the earlier section, this social cost include the 'historical' costs for education and training of the migrant, as well as costs to replace the skill shortage. As against this social cost incurred due to skill shortage, the labour sending country receives some social benefit, as emigration releases the pressure of unemployment in sectors where there is an excess supply of labour.

5.3 Return Migration and the Domestic Labour Market:

Reintegration of return migrants in the home country labour market and skill formation in the domestic labour market through the return migrants are the two most important and debated issues associated with the phenomenon of return migration. The two subsections of this section are devoted to the discussion of these two issues.

5.3.a *Problem of Reintegration of Return Migrants*

To address the problem of reintegration or absorption of return migrants, it is important to recognise that all migratory flows do not generate return-migratory flows and also that all return-migratory flows are not subject to problems of re-absorption.

[21] Robert Schware, 1990.

Return migration is a phenomenon, which is particularly inevitable for the migrants, who migrate under a contractual agreement for a limited period of time. Migrants who migrate with an intention of not returning, returns, mostly, in case of failure to get job or to keep the job or to adapt to the new environment, or being not able to resist the mental and emotional stress, or physical failure to adjust to the new climatic conditions and food habits. Such return migrations are probably too less in number and presumably do not have any significant effect on the regional or national economy. Migrants who migrate temporarily, under some contract, to work on a developmental or industrial project, are likely to generate a return flow, once the contract period is over, unless they get into a new contract. The probability of getting a new contract becomes slender, if the host country gets into a recession.

Other than the host country getting into a recession, return migratory flow may also be generated by prosperity in the home country. E.g. in Jordan, flows of return migration occurred in response to newfound prosperity in the home country. It brought together a new and continued immigration flow of non-nationals as well[22]. Absorption of these return migrants and new immigrants is not a major problem for the home country, if the economy is on the upswing of the business cycle.

Temporary migrants, who migrate for very short periods, do not face problem in getting jobs, on return, primarily due to the nature of their migration. These migrants are generally high-skilled professionals, whose services are in high demand both in the sending country and in the receiving countries. They migrate for a very short period of time, on a particular assignment, often retaining their jobs in the home country. Even if they do not retain the job they are readily absorbed, given the high demand for their services.

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[22] Tabarah, 1988.

Therefore return-migratory flows and their re-absorption are particularly relevant for migrants who migrate temporarily under some contractual agreement, but not for very short period of time, and return as the contract terminates or due to recession in the host country. In this section, we will confine our interest on return and re-absorption of these migrants in the domestic labour market of their home country. Return of South Asian and Southeast Asian 'contract' labourers from the oil producing countries of the Gulf or the South and East European 'guest workers' from West Europe are particularly important in this context. In our discussion we will present evidences of return migration and unemployment among return migrants, in the countries exporting labour to the Gulf. Particular evidences of return migration to India or unemployment among the returnees are not practically available in the literature. Given the similarity of socio-economic conditions between India and some other countries exporting labour to the Gulf, we can infer that India confronts similar problems in relation to reintegration of return migrants.

It is not that all the countries, which sent contract labourers, faced this problem in the time of oil price collapse and the consequent recession in the Gulf. The recession implied a curtailment in the activities in the 'new construction' sector and consequently the demand for labour shifted away from the several categories of the relatively low skilled and unskilled construction workers to the high-skilled service, operation and maintenance workers. This seem to have given rise to two things,

(a) boost to labour migration from countries like Philippines, with labourers of these specialised skill categories, and

(b) an increasing degree of competition, for the relatively unskilled categories, with the result that countries willing to accept very low-wage tenders, for their workers, managing to maintain or perhaps increase their shares in the labour market of the oil producing countries.

There had been a noticeable diversion, of late, into more developed ASEAN countries, in the late 1980s and early 1990s, simultaneously with the decline in labour demand, in the Middle East. Srilanka, Philippines and Thailand have initiated policies to facilitate this direction towards Japan, Singapore and Brunei. India, Pakistan and Bangladesh were not so active in initiating such policies.[23]

Evidences on re-absorption of return migrants are scanty for any empirical analysis. Whatever casual observation are reported, it suggests that the high rate of unemployment among return migrants from the Gulf in the Asian countries, should not be confused with the general high rate of unemployment prevailing in the domestic labour markets of these economies. Evidences show that unemployment is particularly high among the return migrants, compared to the non-migrants and there is also a sharp deterioration in the employment status of the return migrants, compared to their pre-migration status. For example, in Thailand, unemployment among return migrants is 17% compared to 2% in their pre-migration stage. In Bangladesh the corresponding figures are 40% and 10% respectively. Only in the case of Republic of Korea, there is little change in the employment status for the return migrants who served as company employee abroad.[24]

Let us first look into the factors that can create problems for re-absorption of return migrants. The neoclassical school seems to be silent about the impact of return migration, on the domestic labour market, in general, and wages and employment, in particular. It is probably because it treats return migration as a mere reversal of the migratory process. Migration is treated as a mere withdrawal of labour from the labour force and return migration as an addition to the labour force, the difference being only in 'logical' time. But as a part of the labour force is withdrawn, the market and the production process, as well as the

[23] Saith, 1989.

[24] Rashid Amjad, 1989.

migrant's attitude towards different kinds of work, undergo certain changes, which cannot be reversed when the migrants return and attempt to join the labour force of the home country. Neoclassical school does not consider this passage of 'historical' time.

First let us consider the possible changes in the production process. As a part of the labour force is withdrawn, it is possible that employers and peasant households follow a labour substitution policy, which increases the capital intensity of the production process. This change is then held to be irreversible and hence, migrants returning after the lapse of a few years confront a tighter and less responsive labour market. However, this hypothesis is subject to certain limitations. We have listed the problems as follows.

1. The assumption of one-way adjustment of capital intensity is problematic. Of course employers would not write off newly installed capital equipments. Manufacturing processes are, however, very varied, involving a variety of techniques and functions, many of which retain considerable flexibility in this regard. Changes are sometimes made at the margin in the incremental way or by new entrants into the production process. Therefore, in such cases, future replacements of obsolete machinery could adjust the capital intensities in the reverse direction.
2. The issue must be looked into in a dynamic framework, where the return migrants also impart an impulse to the overall growth rate itself by making productive investments out of their savings. This might generate labour demand, which, in turn, might compensate for higher capital intensity.
3. It is not necessary that the migrant would return to the same sectors, from where they were withdrawn. Then the more appropriate question would be of the capital intensity and the adjustment capacities of any other sector of the domestic economy.
4. As we have seen, there have been increases in the wage indices of some semi-skilled workers in many of the South Asian countries. This rather reflects the absence of the

adjustment mechanism through labour substitution and thereby raising the level of capital intensity.

Secondly, the unemployment among return migrants could be voluntary, as they become choosy about the wages, occupation and sometimes even about whether to work or not. Another reason of this voluntary unemployment could be that the return migrants sometimes have the intention to make a second trip abroad and hence, wait for that without looking for a job in the home country. It is sometimes argued that the tendency of migrants to substitute leisure for work after a period of sustained hard work in difficult conditions abroad, is the reason for such high levels of unemployment. E.g. in Bangladesh, the sharp difference between pre-migration and post-return unemployment is partly due to the time lag for adjustment after return, but is largely due to a reluctance to accept available jobs and a strong inclination to independent trade or business, which takes time to materialise. There is also a sharp decline in income of the return migrants of Bangladesh, as they attempt to maintain living standards by living-off their accumulated savings.[25] Similar tendencies have been observed for return migrants of Srilanka.

Thirdly, the reason could be structural, in the sense that returnees may still register to seek employment in those occupations, where new opportunities are not available. It may even be the case that the returnees choose to get self-employed but fail in the long run. Evidences of the extent and length of unemployment of return migrants of Pakistan suggests that the problem is more structural in the above sense, than just a rational response by the return migrants, in not seeking job.

A comprehensive survey over 1400 return migrant households in Pakistan, from November 1985 to March 1986, showed that 20% of them, excluding the 3-4% who are

[25] Rashid Amjad, 1989.

presently not seeking job, remained unemployed in the hope of going abroad again.[26] Results of the survey reveal that the adjustment process for re-absorption may take as much as two years for return migrants to find job. Even after one and a half years of return, 'hard core' unemployment among the returnees is over 10%. As we have just mentioned, the reason may be structural. There is a marked preference among the returnees for self-employment, mainly in services and retail trade or in transportation. The survey among Pakistani return migrants, referred to here, showed that in rural areas, there was a sharp drop in the percentage of people employed as artisans, casual labour and permanent wage earners, from 63% to 27%, while the percentage of people engaged in agriculture or own business increased from 34% to 56%. In the urban areas also, the share of those having their own business increased from 13% to 32%, while that of permanent wage-employees declined from 44% to 17%. Over 70% of all business were in trade and services, and 17% in the transport sector. The ill equippedness of these enterprises and the inability to take up the new role of self-employed resulted in large-scale failure in business and accounted for the unemployment of the return migrants, even after long time of return.

Fourthly, it is possible that the domestic employers have an aversion of employing the return migrants in the conviction that they would soon be disgruntled and hence become troublesome for the employer.

Fifthly, unemployment among the returnees could also be due to health reasons, because of the severe and the difficult working conditions in the country where they were working. This reason holds for the South Koreans, returning from the Middle East.[27]

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[26] Rashid Amjad, 1989.

[27] *Ibid.*

For all these varied reasons, unemployment has been high among the return migrants from the Gulf. Evidence on return migration and absorption of the return migrants in the domestic labour market is not available for India. However, given the similarity in socio-economic conditions of the countries, sending migrants to the Gulf, it can be anticipated that Indian returnees also faced problems, similar to those faced by their Bangladeshi and Pakistani counterparts.

Return migrants are potential assets to the domestic economy, provided they can be employed in the right place. Utilisation of their accumulated skills and savings in productive purposes can realise this potential. It should be recognised that such high rate of unemployment among the returnees constitutes a source of 'waste' in several senses. It undermines the morale of an otherwise enterprising work force; it erodes the skill that they might have developed overseas. Such unemployed return migrants live on their savings, which diverts potentially investable funds to consumption purposes. It might, however, be noted that all returnees do not remain unemployed and therefore, unemployment of the return migrants can be viewed as a manifestation of employment sharing between the return migrants and the residents.

5.3.b *Return Migration and Skill Formation:*

There is a popular belief that migrant workers acquire skill, while working abroad, and later use this skill in production processes in their home country on return. Their argument is based on three critical conditions:

1. Emigrants find overseas employment that involves greater skill than they used at home country.
2. A worker who acquires skill abroad actually returns home.
3. On returning, the migrants find and accept jobs, where they can apply their acquired skill.

We shall evaluate the plausibility of these conditions one by one.

The first condition may hold good for high-skilled migrants, but it does not apply to the low-skilled workers. The low skilled workers are most often not recruited for jobs where they can acquire skill. As Piore (1979) suggests, the primary reason for their recruitment is that they are essentially transient and ready to accept jobs, which the host country nationals would not accept. Many jobs, for which they are recruited, involve works that are discouraged by the prevailing values in the receiving country.[28] Thus, on returning, the workers are generally reluctant to perform the same kind of job. This is particularly relevant for South Asian workers returning from the Gulf and for the South and East European 'guest workers', returning from West Europe. A major source of industrial skill formation is 'on the job training'. For workers with trivial skill, according to Piore, 'on the job training' occurs in a social setting and depends heavily on the social integration of the trainee. The critical components of skill and knowledge are transferred through the personal interaction of the trainee with the experienced workmen. This is not possible in a segregated labour market and therefore, 'on the job training' is a rather hindered process for the semi-skilled or the unskilled workers, working in a foreign country. The skill that is in demand abroad often does not match the skill requirement at home. For example, the occupational and industrial process profile of the skill demanded by the Middle East economies is quite different from that required by the labour sending countries. This is apparent from the lopsided occupational profile of the migrants while overseas, concentrated in the construction and related sectors.

The second condition is also questionable. The process of cultural assimilation and social integration in the host country is such that, it weakens the tie of the high-skilled workers, to their home, and motivates the low-skilled ones to return. This assimilation and

[28] For detailed discussion on segregated labour markets in developed societies see Piore, 1979.

integration often takes the form of legal permission and encouragement for the former and restriction for the later. Formal education makes the skilled workers proficient in the host country language, which, in turn, makes the process of cultural assimilation and social integration smoother and loosens the ties with the home country. There is a possibility of skill transfer through these migrants, if they at all return. But the ties with the home country, becoming weak over time, prevents their return. Rather the migrants with little skill and training, not being able to assimilate into the host society, return home.

The third condition is an over simplification in the sense that, unemployment is widespread and a rather common phenomenon among the return migrants. One of the various reasons for this widespread unemployment is that return migrants, specially who worked in the lower segment of a segregated labour market of the foreign country, do not plan to enter that end of the domestic job market as wage earners, where they could possibly utilise their skill, if any. They, generally, plan to utilise their savings to establish themselves in some activity that will give them independent entrepreneurial status. The most common fantasies among the low-skilled return migrants is that of agricultural investment, expansion of family land holdings, investment in farm machinery, building and livestock, transport business, various services or trading. These fantasies are probably the basic human desire for independence, but they are more the result of exposure of a person, whose household is essentially a peasant household, to commercial and industrial settings abroad. Therefore, it is difficult on one hand and undesirable on part of the return migrant, to get employed as a wage earner and use the acquired skills there.

The above discussion suggests that the first condition holds for high skilled emigrants but not for low or unskilled migrants. Skilled immigrants in developed societies find employment that involves greater skill than they used in their home country. But low and unskilled migrant workers, working in segregated labour markets of developed societies, do

not get employment where they can acquire new skills. The second condition, on the other hand, holds for the unskilled migrants but not for the skilled ones. Return migration is a regular phenomenon for unskilled and semi-skilled migrants, where as for high skilled migrants it is not. The third condition, we have seen in the earlier subsection, is redundant for the skilled professionals, who permanently migrate to the developed countries. But for the unskilled and semi-skilled workers unemployment is predominant and therefore, the condition, in general, fails to hold. So far as the high-skilled temporary migrants are concerned, the first two assumptions hold good. However, the third is doubtful. Sussen (1978) suggests that the labour-exporting countries have failed to integrate these workers into the domestic production process due to structural incapability to do so, insofar as industrialisation has not undergone significant expansion.

Therefore migrants of no particular skill category satisfy all the three conditions, so as to make skill formation possible through return migration.

There are, however, several positive elements associated to return migration, which can be identified. The industrial discipline, which even the unskilled workers are put into and the generalised skill that they acquire, whatever trivial it might be, is a potential benefit for the labour-exporting country and can be realised through employment of returnees in the right place. In addition, there is also an induced skill formation effect on the non-migrant domestic workforce. This is effective to the extent that labour withdrawal leads to parallel, though not identical, changes in manufacturing and management processes in the sending country.

Return of migrants, as should be clear from our discussion, is a source of both 'cost' and 'benefit' for the society of the source country. Social costs and benefits need to be distinguished for the return of permanent emigrants and temporary migrants. For many under developed labour-exporting countries, including India, skilled professional workers migrate

permanently to the Western industrialised countries. Temporary flows of unskilled or semi-skilled labourers from these under developed labour-exporting countries have also been observed to move towards the Middle East or to the countries of Western Europe. There is a social cost of skill drain, associated with emigration of skilled workers. This cost is exaggerated if the emigration is permanent. In case of return of these skilled professional workers the country receives a social benefit in way of skill formation, if they can be employed in the home country labour market. On the other hand, return of temporary workers is inevitable. But from our discussion above, it should be discernible that these temporary unskilled migrants do not contribute much to the skill formation in the home country labour market. Their contribution are limited to the modest level of skill formation through the habit of discipline and some generalised skills, acquired by working in the industrial projects at the destination. On the other hand, the home country incurs some social cost on account of return of these temporary unskilled migrants in the form of incidence of unemployment among them.

5.4 Policy Issues:

In the earlier sections, we have observed that emigration and return of migration give rise to some social costs and yield social benefits to the source country. The nature and magnitude of costs and benefits are distinguishable between permanent migration and temporary migration on one hand, as well as between migration of high skilled labour and that of low skilled labour on the other. For the country, where both emigration and return flows are significant as proportion of total population or workforce, the aim of any policy formulation should be to maximise the benefits and minimise the costs associated with emigration and return migration.

Social costs in terms of skill drain and consequent skill shortage are associated with migration of skilled workers. For a country from where skilled labourers, especially the high skilled professionals, emigrate social cost of skill drain includes the welfare loss in terms of output foregone and the capital flows implicit in human capital formation of the emigrant. The emigrant and the country of immigration receive the corresponding welfare gains. Bhagwati (1976) argues that this privatisation of benefits by the emigrant and transmission of social welfare to the country of immigration constitute the rationale for a tax to compensate the country of emigration for the loss of social welfare. With respect to the labour market this social cost of skill drain includes the 'historical' costs of training and education of the emigrant.

Emigration of labourers with skill that are abundant in the country is a source of social benefit in that it reduces the pressure of unemployment that generally prevails in a populated labour-exporting country. A policy formulation to maximise this benefit should aim at encouraging the emigration of such labourers. Migration of skilled labour, especially those with scarce skill generates skill shortages in particular sectors, on which the incidence of emigration is heavy. To meet this shortage there are two options available to policy makers. One is the restriction on emigration of workers, whose exit may result in shortage in a particular skill category within the country and the other is instituting crash training programs in skill that are in high demand in the host country.

Unemployment among return migrants is another source of concern for the labour-exporting countries as its burden renders a cost to the society. If these return migrants can be employed in jobs where they can apply their skill that they acquired while working abroad, they can be a source of potential social benefit by contributing to skill formation. The aim of maximising the social benefit of skill formation through return migrants and minimising the

social cost of unemployment among returnees can be achieved by re-absorption of the returnees.

5.4.a *Evidences of Policy Formulation in Some Labour-exporting countries*:

In the following discussion, we shall furnish some evidences of policy formulation addressing the labour market implications of emigration. For this purpose we shall focus on two aspects of policy formulation, namely, the policies for skill regulation that addresses the problem of skill shortage taken up by various labour-exporting countries and the policy formulation for re-absorption of return migrants.

Polices for Skill Regulation:

Restriction to export of scarce skills has been one common policy measure in many labour-exporting countries. Countries like Bangladesh, Pakistan, Korea and the Philippines formulated policies for restricting the export of scarce skills.[29] Policy formulation in the Philippines identified certain critical skill categories and made it mandatory for workers in these skill categories to obtain clearance from their present employers before any migration contract was processed for them. These categories were related to petrochemical operations, civil aviation, telecommunication, computers and culinary arts. The Korean policy was, however, stated in broad terms and did not identify any particular category.[30] Bangladesh placed restrictions on the emigration of engineers, doctors and nurses since 1979, though as a result some unemployment was reported in these categories. Pakistan also placed restriction on the emigration of doctors and nurses during the late 1970s and early 1980s, but these restrictions were removed later.

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[29] Rashid Amjad. 1989

[30] Russel, 1986.

As a response to the domestic shortages and the labour demands of an expanded overseas market, several countries established training programs for workers.

In the Philippines, intensified training programs had been developed and maintained by the government and private sectors alike. An inter-agency co-operative action program, involving several government agencies, had been set up to upgrade the skills of sea-based workers. Similarly private companies had begun their own training programs. The Bangladesh government had organised extensive work-training programs. In addition the Bangladesh Manpower Planning Centre had been established to recommend proper training programs and to indicate shortages and surpluses of various categories of workers. A somewhat different system of increasing the supply of skilled workers had been devised in Korea. In 1977 the Korean government ordered all overseas construction firms to educate 10% (later lowered to 8% and then 6%) of unskilled workers at their own expense annually and to employ all the workers who had been trained. [31]

To augment its supply of skilled workers, Pakistan set up a National Training Board in 1980 to look after all aspects of the vocational training programs in the country. As a result of the board's effort, several training institutions had been set up. A three-year crash training program had been introduced and incentives had been recommended for trainees.[32]

The experiences of different countries show that training programmes are extremely costly and public sector training institutes lacks flexibility to cater to changing skill demands. The private institutes have been more cost effective and flexible in this regard. However, the quality of training may not have been of high standards. It has also been reported that most of

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[31] Stahl, 1986.

[32] Arnold and Shah, 1986b.

the vocational training facilities operated below their capacity and have produced fewer skilled workers than the original target.

Policies for Reintegration of Return Migrants:

There are limitations to policy making for re-absorption of the return migrants. Deliberate effort on part of the government, to absorb the return migrants into the domestic labour market, involves problems regarding equity and political considerations. Migrants do not, in general, belong to the poorest strata of the society in terms of income and assets, even in the pre-migration stage. This is plausible because, negotiating the migration contract is itself an expensive business. Even within their own strata, a self selection process, subject to requirements set by the potential foreign employer, determines and chooses the stronger, the younger, the better educated and the more skilled ones for overseas employment. By the time they return, these advantageous attributes grow, except for the fact that they also grow older. Moreover, they return with significantly high savings and assets. As such, an equity issue arises. Does the return migrants, as a category, deserve to be treated with special favour vis-à-vis the poorer non-migrant section of the society? Should additional resources be channelled into special investment schemes, for the return migrants? Or the government should be passive, on this account, giving only guidance and support? These equity considerations can be furthermore emphasised by the possibility of political tensions, arising in the poorer, non-migrant sections, as a reaction to the policies, designed especially for the returnees. On the other hand, the return migrants form a potentially explosive political category, which can be fuelled by an unsuccessful return to their home country.

Governments of most South Asian countries, including India, have, in general, displayed little attention on the return migrants. There had been only occasional efforts to assist the returnees in setting up their own business or to provide them with entrepreneurial

training. But these could, at best, cater to a few. The policy, in this regard, appears to be one of letting the market to bear the burden of re-absorption. Such a policy can only be justified on the grounds of equity. What needs to be done is that, policies should be oriented towards increasing absorption capacity, in general, and supplementing them by special programs for re-absorption of returnees. Also there is a need for making the return migrants aware of the schemes, designed for their employment. It has been observed that majority of the returnees use banks for depositing their savings, due to lack of information about investment opportunities, which are specifically designed for them.

5.4.b *The Policy Regime in India*

The policy regime in India reveals neither an interest in, nor any concern about emigration of workers with technical and professional expertise.[33] A large proportion of such labour migrated permanently to the industrialised nations. In so far as the dimensions and composition of this migration are determined by demand for skilled labour in the industrialised countries, the government has no means of discouraging emigration in professions where there is an excess demand at home or, encouraging migration in professions where there is an excess supply at home.

The government of India seems to have taken interest mostly in administering the process of labour outflows to the Middle East and in distribution of gains between the migrant workers and the recruitment agents. It is reasonable to presume that labour flows to the Middle East were not supply-constrained. But, after a time the skill composition and the regional distribution of migration begins to matter if it depletes specific skills from particular regions or sectors, as we have observed in the case of construction workers of Kerala.

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[33] Nayyar. 1994.

Leaving the choice of skill composition and regional distribution with the recruitment agents, have adversely affected some sectors by giving rise to skill shortages.

Concluding Remarks:

The purpose of this chapter was to bring forward a number of issues regarding the implications of international migration on the labour market of the source country. The most significant issue in this connection is the potential of mass emigration to lighten the pressure of unemployment, operating on a labour surplus country, i.e., to act as a 'safety valve'. The theoretical literature that we have presented suggests that such possibilities are conditional and the most important condition is the volume of the emigration flow. Empirically, the role of emigration in reducing unemployment pressures is estimated by the volume of emigration relative to the unemployed workforce. For a country with large flows of emigration relative to the population or the workforce, such empirical estimation apparently shows emigration to act successfully as a 'safety valve'. But whether mass emigration actually works as a 'safety valve', has to be observed at a rather disaggregated level. Emigration could have generated unemployment to the workers who had complementerity in the production process, with those labourers who emigrated. Heavy incidence of emigration from a particular sector may also result in a shortage of skill in that particular sector. Emigration generates social benefits, in so far as, it can actually reduce unemployment at the aggregate as well as at the disaggregate level. It generates social costs, in so far as, it results in skill shortage in particular sectors and this possibility is higher for labourers with higher and scarce skill.

In our discussion, the role of emigration, as a 'safety valve', was confined to its role in reducing unemployment in the domestic economy. The 'safety valve' can be defined in a slightly different way. It can be defined as "an outlet for a surplus population, whose

aspirations and expectations cannot be met at home."[34] It is generally advanced that, migration, by exposing the population to foreign standards of living and patterns of work, actually generates the aspirations that the public policy makers feel pressed to meet.

International migration, according to Piore (1979), was initiated by the aspiring middle class, motivated by the patterns of living abroad. In this initial phase of migration, emigration may indeed release the social pressure that the society would be otherwise faced with. The composition of migrants gradually shifts from a dominance of urban middle class to the dominance of landless agricultural labourers and peasants, from the backward regions of the country, whose motivation is upward mobility in the social structure of the rural society, from where they come. On return, the migrants bring the changed conception of lifestyle, which they acquire from abroad. In such a situation, the 'safety valve' operates in a reverse direction by raising the aspirations of higher living among the non-migrant villagers.

Return migration is another important issue that needs to be considered. Emigrating countries are generally populated countries. Therefore, large-scale return migration bestows the burden of re-absorption of the returnees on the labour market of the home country and thereby generates a social cost for the country. On the other hand, skilled return migrants can contribute to skill formation in the labour market of the home country, if employed in the right place and thus, can be a source of social benefit.

Policy formulation for the labour market, to maximise the social benefits and to minimise the social costs of emigration, has taken various forms in various countries. But for the re-absorption of return migrants, populated emigrating countries have faced problems on grounds of equity.

[34] Piore, 1979.

Estimates at the aggregate level shows that emigration acted as a 'safety valve', only in a very modest manner in India. At a regional level, shortage of skill was manifested in rising wages in the construction sector of Kerala. Regarding return migration, India lacks definite estimates. Policy regime in India mostly concentrated in administering the process of labour outflow to the Middle East. Other areas of policy formulation, in regard to labour market effects of emigration, remain mostly neglected.

Chapter 6

Summary and Conclusion

Our discussion in the preceding chapters has been divided into two parts. In the first part of the presentation, our objective has been to delineate the theoretical explanations regarding the determinants of international migration, and to reconcile experiences and evidences of migration with the theoretical explanations. In the second part, our objective has been to analyse some of the implications of international migration on the labour exporting countries. We attempted to put special emphasis to the determining factors of migration flows originating in India and on the implications of emigration on the Indian economy, in the respective parts. This final chapter reviews the issues addressed in the preceding chapters.

The two chapters in part one attempted to review the theoretical explanations of international migration and to conciliate them with the evidences. The relevant theories and the empirical evidences that explain why people migrate internationally, suggest that wage differential and differences in employment or professional opportunities between the source and the destination has had an apparently obvious role in generating migratory flows in different parts of the globe, at different points of time in the history of human civilisation. The neoclassical explanations seem true at this level. It has also been observed that, in presence of difference in income and employment opportunities between the source and the destination, actual movement of people between the two countries has been subject to the openness of the immigration laws at the destination. The immigration laws have been hospitable and open to migratory flows, mostly at times of labour shortages. Thus the migratory flows are determined as well by the demand for labour in the receiving countries. However, the supply side of the story is also equally important in generating migratory flows. Unemployment and

low income in the home country has been the most obvious push factors behind the generation of any migration stream.

At a macro level, the neo-Marxist literature suggest that it is the level of capital accumulation that determines where a migration stream will originate and where it will head. According to them higher level of capital accumulation and the consequent growth of economic activity create labour shortage, which is fulfilled by the 'reserve army' of migrant labour. The neo-Marxist literature further suggests that, in segregated labour markets of developed countries, immigrant labour have been used to fill the gap at the lower end of the market, which consists of low-skill, low-pay jobs. The 'indentured' labour migrations, in the colonial period, the migration of 'guest workers' to West Europe, or the 'contract labour' migration to the Middle East confirm to this. The migration of 'professional, technical and kindred' (PTK) workers, from the Asian countries to the advanced industrialised countries, does not confirm to the segregated labour market hypothesis, for these migrants are not absorbed at the lower end of the receiving country's labour market. Migration of these workers across borders, in most cases, has been generated by lack of professional opportunities at home. Low level of capital accumulation, in the home country, has been the primary reason for their unemployment or underemployment. What the neo-Marxists possibly have ignored is that, the countries from where the PTK workers emigrate, are states with considerable outlay on human capital formation. The relatively low level of physical capital formation that could not productively employ this human capital, is a reason for emigration of high skilled professionals from developing countries. Moreover, capital formations that displaced labour or destroyed the traditional work structure have also caused people to migrate in search of job.

In sum, economically motivated migration of labour have, almost without any exception, been in response to higher income or employment opportunities elsewhere. The

imbalance in demand and supply of labour is caused not only by the differences in levels of capital formation in the source and the destination, but also by the mismatched physical and human capital formation in countries of both origin and destination.

According to the neoclassical micro-theoretic explanations of international migration, which is similar to its macro-theoretic counterpart, expected wage differential is an incentive to migrate. This neoclassical explanation has been supplemented by the explanations provided by 'new economics' of labour migration, which recognised some additional factors operating behind a decision to migrate. A sense of deprivation, relative to a given reference group may result in emigration of poor people from the developing countries. The risk associated with agriculture and allied activities, in developing countries, results in fluctuating income. This fluctuation in income induces many peasant families to send one or more of its members abroad. Asymmetry of information between the labour markets of the source and the destination, about the skill levels of the migrants, may also affect the individual decisions regarding migration. In a regime of partially liberalised trade, emigration of low skilled workers, from a developing country, may be induced, as increased wages relaxes the financial constraints to migrate. A preference for home country for non-economic reasons may induce an individual to migrate temporarily. However, this explanation of temporary migration cannot be applied universally, especially for those temporary migrants who intend to migrate permanently but confronted with restrictive immigration policies, end up doing it temporarily. It would be an interesting exercise to incorporate a restriction on permanent migration as a constraint, in the optimisation problem of a prospective migrant, so as to determine whether she chooses to migrate temporarily or a permanently.

The push and the pull factors generating migratory flows and the individual decision making in favour of migration are not two separate entities. They only operate at different

levels to initiate the process of migration. Our discussion in chapter two and chapter three, therefore, are complementary to each other in explaining why people migrate across borders.

The objective of the second part of this dissertation has been to examine some of the implications of emigration on the sending country, in the light of empirical evidences from various labour exporting countries, in general, and from India in particular.

In the fourth chapter, our objective was to examine the developmental role of remittances from international migration. Remittance, as a source of foreign exchange, relaxes the financial macroeconomic constraints operation on the labour exporting economy. This role is enhanced if the value of remittance inflow is large. We attempted to examine the possible factors that fetch high value of remittances for a labour exporting country. Our finding in this regard is that large volume of migration, most often, contributes to high value of remittances. Apart from this, it depended on the individual migrant's economic condition in the country of employment as well as, that of his family members at home. The exchange rate regime of the home country has been an equally responsible factor influencing the value of remittances. In the last fifty years, India experienced a spurt in the value of remittances thrice. Once in the mid-1960s, when permanent migration to the industrially developed countries suddenly jumped to a new increased level. The second time, remittances registered a spectacular rise, in the mid-1970s, when temporary migration to the Middle East intensified. The third time remittances shoot up to an unprecedented level in the 1990s. It coincided with two incidents – a new flow of emigration to the countries in the Middle East undergoing the post-Gulf War reconstruction or a new economic revival and India's move towards the freely convertible exchange rate regime. The convertibility of the Indian rupee, in the current account, has possibly given the migrants an extra incentive to remit through the official channel. However, we could not provide explanation for the third jump in the value remittances in the 1996/97, with the limited information available to us on the volume of

migratory flows to different destinations and other variables that can possibly affect the value of remittances. Moreover our explanation for the spurt of remittances in the 1990s is only an intuitive one and rigorous research is required to come to any concrete conclusion.

It is worth noting that the migrants to the Middle East contributed much more to the value of remittances during the late-1970s and early 1980s, at a per capita level, compared to the migrants to the industrially developed countries, despite earning much less than the latter group. The poor economic conditions of their families, back home, and the inhospitable immigration laws of the Gulf countries, which did not allow them to settle there with their families, enforced them to save and remit more.

To study the possible impact of remittances on the regional as well as the overall economy of the receiving countries, on basis of experiences of India and other receiving countries, have been the other objective of chapter 4. The impact of remittances on the regional economy depends on how the receiving households use remittances. Evidences suggest that the remittances are mostly used for consumption purposes, for construction and repairing of houses and for repayment of debts. Though this is the general trend, in some instances remittances are invested in agriculture or industry.

The impact of remittances on the overall economy depends on the value of remittances, relative to other macroeconomic variables. For a large country like India, it is generally insignificant. However, to some extent, it helped relax the foreign exchange constraint, as well as the saving constraints on the Indian economy.

Inflow of remittances carries a social benefit from emigration. Therefore, it is essential for a labour exporting country to formulate policies to maximise the value of remittances, given the volume of labour outflow. However, in India, value of remittances has

largely depended on the volume of migration. Lack of policy in India to increase remittances is apparent.

The purpose of the fifth chapter was to bring forward a number of issues on labour market implications of emigration. The most important of the issues is the potential of emigration to act as a 'safety valve', on pressure of unemployment that a populated labour exporting country faces. Theoretical literature on the issue predict that emigration can relax the pressure of unemployment under certain conditions. Complementerity in production, with emigrants, does not only result in labour shortage, by the number of emigrants, but also creates unemployment for the complementary group. Similarly, outflow of physical capital, along with labour, as well as increasing returns to scale in production, causes unemployment for existing population. However, theoretical predictions cannot always be tasted empirically. Empirical estimates, on the role of emigration in reducing unemployment pressure, is generally done by the relative proportions of emigrants and total workforce or total unemployed to the total population. For a country which exports significant volume of labour, relative to the above-mentioned variables, such estimates show emigration as acting successfully to reduce the unemployment pressure. Evidences at a disaggregated level sometimes show that mass emigration, from a particular sector, causes skill shortage and consequent rise in wage levels.

In view of the large volume of the Indian labour market, the effect of emigration is insignificant on the overall Indian labour market. However, due to the concentration of emigration, the effect is somewhat visible in the regional economy of Kerala.

Return migration and the re-absorption of returnees is a matter of concern for a populated labour exporting country. On the other hand they can be a source of skill formation in the domestic labour market, if employed in the right place.

With respect to the sending country's labour market, emigration of skilled and scarce labour bestows social cost by creating skill shortage and social benefit, in case they return and contribute in skill formation. Emigration of labour with low skill, which is abundant in the country, is a source of social benefit, insofar as it can reduce unemployment pressure. Policy formulation that maximises social benefits and minimises social costs, have taken the form of regulation on skill migration, training programmes to meet skill shortages. But in formulating policies for re-absorption of return migrants, populated emigrating countries have faced problems, on grounds of equity.

International migration will continue to exist so long as, developmental levels of countries are uneven. Its dimension will depend on the nature of the immigration policies of potential receiving countries and on the degree of success of these policies in achieving their stated goals. It is thus needful on the part of the potential labour exporting countries to formulate appropriate policies to reap maximum benefits from emigration of its people.

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