



Constellations, Incentives and Provisional Impacts of Migration Related Policies

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Migration: how to estimate social costs and benefits?

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Costs and benefits

- **The “benefits” are foreseeable significant positive effects expected form the adoption, implementation and compliance with man-made rules and market/societal constellations,** repeated over medium-to-long periods, including those that can be both qualitative and quantitative and be observed in public life, health, environment, economy and redistribution.
- **“Costs” are foreseeable significant negative effects expected form the adoption, implementation and compliance with man-made rules and market/societal constellations,** repeated over medium-to-long periods, including those that can be both qualitative and quantitative and be observed in public life, health, environment, economy and redistribution.



Measuring all these?

- **Benefits** are measured by **values** (their monetary expressions) of expected positive effects and the “willingness to pay” in order to achieve these positive effects. The **exact measure of costs would be the measure of what it takes to compensate and overcome negative impacts.**
- **Willingness to pay** and compensation for negative effects need to be **separately expressed as a monetary equivalent of what is needed for the implementation of a policy or a project and/or intended action in order to have all (affected) members of the society being better off than in the period before the adoption/implementation of a policy or undertaking an action.** This is why draft policy/projects should not be implemented if costs exceed the benefits.



Examples

- Salaries in Germany in 1997 have been 31 times higher compared to Bulgaria. This difference has contracted to 16 times in 2003. Compared to Greece wage differentials contracted from 9 times to 7 times between 1997 and 2003. Our expectation is that the positive developments over the last six, seven years combined with optimistic further perspectives enhance the value of income at home at the expense of income earned abroad.
- After 7 years of economic growth (4.2% year average) Bulgaria achieved certain convergence to EU, however the income gap remains considerable as Bulgarian GDP per capita equals around 1/3 of EU average. Assuming that current trends will remain sustainable we extrapolate 4% GDP per capita growth in Bulgaria and 2% in the EU. According to these assumptions convergence will occur after 63 years.



Examples

- Even when and if benefits and costs are not exactly measurable – **although people always do these measurements more precisely than governments**, the improved diversity, widening the scope of choices and freedom to choose (as key indicator of development in understanding of Peter Bauer – 1953) could be a sufficient motivation to emigrate.
- Take relationship between migration and credit market rationing (Mesnard 2000). She argues that return migration is an important way to deal with capital constraints. If the home country has lower prices, the assets that migrants accumulate in the source country will have higher purchasing power at home.
- It could be disadvantageous to migrate now if the development in the home country is unexpectedly positive or unexpectedly negative in the target country. Moreover a consecutive sequence of economic growth in the native country is strengthening disincentives to migrate.



Fundamentals of economic understanding labor migration

- Labor is both resource and capital, i.e. resource that allows for production and prosperity in the future;
- As such it is an attribute and property of the individual, non-alienable and usable at own discretion;
- For these reasons, incentives matter; they – or rather the difference between income and other tangible and intangible benefits between supply and recipient country - motivate international labor flows;
- The factors to influence above choices are the frameworks that regulate international and domestic labor flows.



Peculiar nature of migration

- It is a individual and a family matter and a challenge;
- It takes place upon individual choice and utilizes family and ethnicity related support networks and sources of information and other services;
- Provisional benefits and losses (costs) are first of all individual and family ones;
- Some benefits and losses (costs) are “then” socialized;
- Formalized (e.g. “Licensed Information Mediators for Working Abroad”, as they are established by Bulgaria law) and semi-formalized service providers to migrants collect a slice of the benefit, i.e. fees determined by market and regulatory factors.



With EU integration taking off migration:

- **Would intensify** (return of former political emigrants would stall),
- Related **prosperity gains** for both sending/receiving countries **would grow**, at first on individual/family level but rather likely on macro (national) level as well;
- Accession countries (Romania and Bulgaria) **would enjoy more benefits from outward migration than losses of public resources**, but will witness some migration redirection, not only towards EU but towards EU via these countries and towards Romania and Bulgaria from other Balkans, Asia and NIS;
- Is and would be **motivated by and will lead to non-trivial shift in incentives**;
- **Is hardly manageable.**



Incentives and impacts: the case of Bulgaria

- The stock
- Macro impacts
- Micro impacts and remittances
- Business environment factors
- Conclusions



Migration Stock

- Worldwide - **175 million people worldwide** in 2000 (**86 million people, including refugees were labor migrants** according to ILO)
- Europe - 15 Member States in 2001 was estimated at **14.3 million** (2001-2002 there were approximately **9.9 million recorded foreign workers**)

Profile of Bulgaria Emigrants

[No reliable statistics on Bulgarian emigration stock, though it was almost impossible have one]

- NSI data (1992 – 2001) – 177 000
- People sent by bilateral agreements for work abroad (1998-2003) - 20 815 (who are very likely to have stayed)
- Persons deported back in Bulgaria (April 2002 – September 2003) - 6 561
- Unified System for Civic Registration and Administrative Service of Population – in 2004 - 36 692 live Bulgarians with present address abroad – those known as legally residing abroad.
- Calculation using population statistics (1998 - 2003) - 213.3

Mirror statistics in some researched countries (Spain, Greece, Italy, Germany), compared to those 57,507 known by Bulgaria authorities

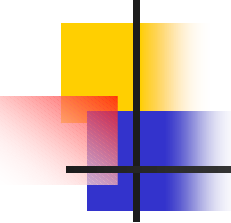
	Greece	Spain	Italy	Germany
2001	35 104***	11 761 (0)	7 500*	38 143 ****
2002		15 842 (1)	8 375*	42 419 ****
2003		28 319	7 399**	44 300 *****
2004			8 535*	

Remarks: * Valid residence permits ; ** Work permits; *** Official census; **** Stock of Bulgarians; ***** Source: Germany Case Study; (0) Data as of 30/06/2004 ; (1) Source: European Migration Center:



Profile of a Bulgarian Emigrant (based on statistics and case studies)

- Sex – age group 30 - 44 (37% in Greece); age group 25 - 34 (37% in Spain).
- Gender – female prevalence – 60.4% (Greece); 59% (Italy); 59% (Spain), **but this is, partly, because male emigrants are more often illegal.**
- Marital status – married – Greece (59%), Spain (50%).
- Education – secondary prevail.
- Duration of stay – over 3 years.



Incentives to emigrate (according to field results)

- I had work but money was not enough to survive (31% on average for all researched countries).
- Lack of perspective for improving the economic situation (21% average).
- Being unemployed (11% average).
- Family reunification (9% average).
- Contextual (macroeconomic reason – below).

Source: Dr. Markova, ELIAMEP, Official Statistics



Employment in host country

- Employed – 75% average
- Unemployed at the moment of the field research – 10%
- Self-employed (increasing in recent years) – 3% (Greece), 4% (Spain)
- The sum is less than 100% because some people are not looking for work (i.e. housewives)

Source: Dr. Markova, Official Statistics

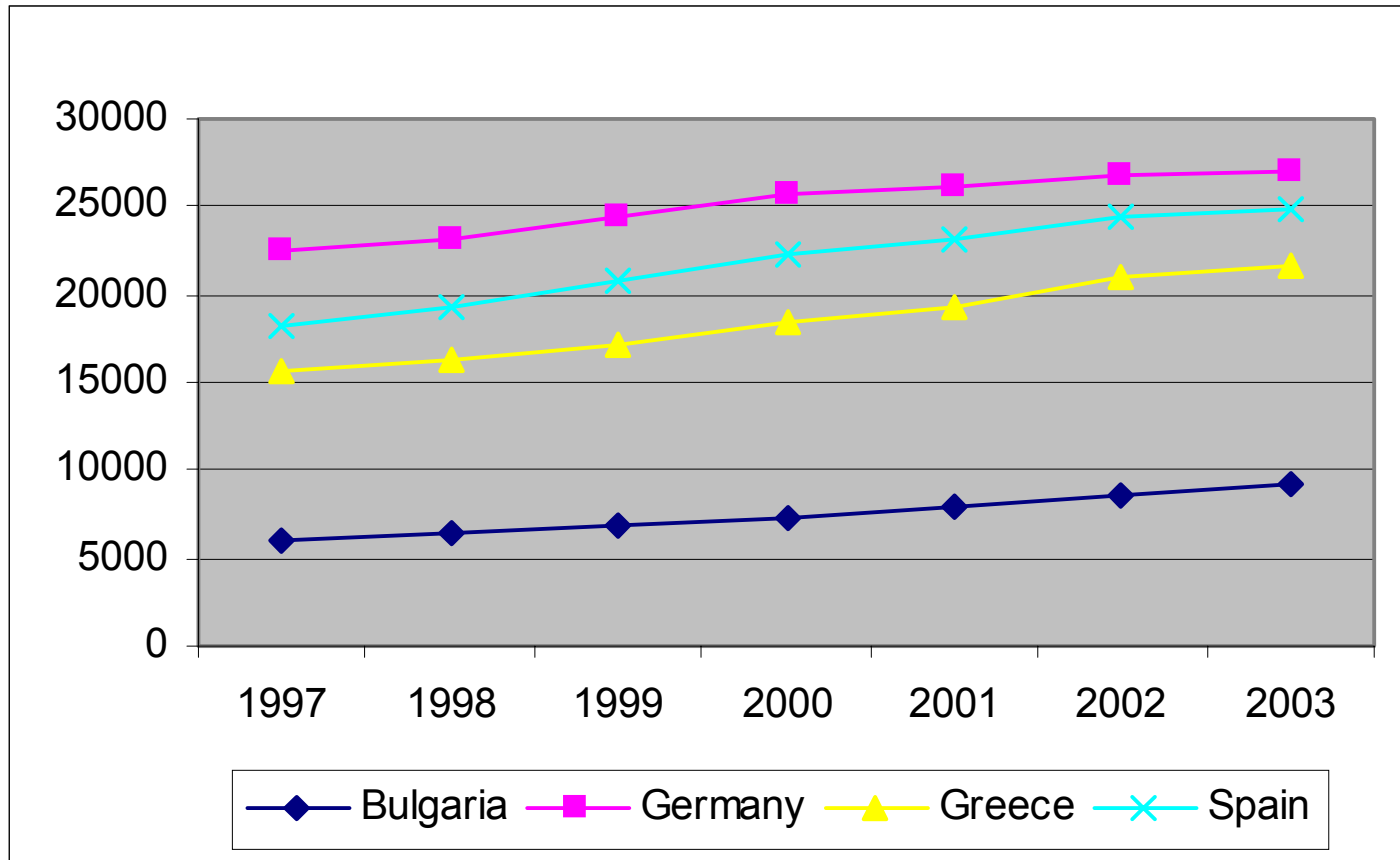


Fields of Employment

- Agriculture
- Construction
- Tourism
- In-house activities (childcare, babysitting, housemaids, etc.)
- Commercial activities – trade
- Manufacturing
- Services – in general “receiving countries” have larger service sectors that accommodate Bulgaria and emigrants.

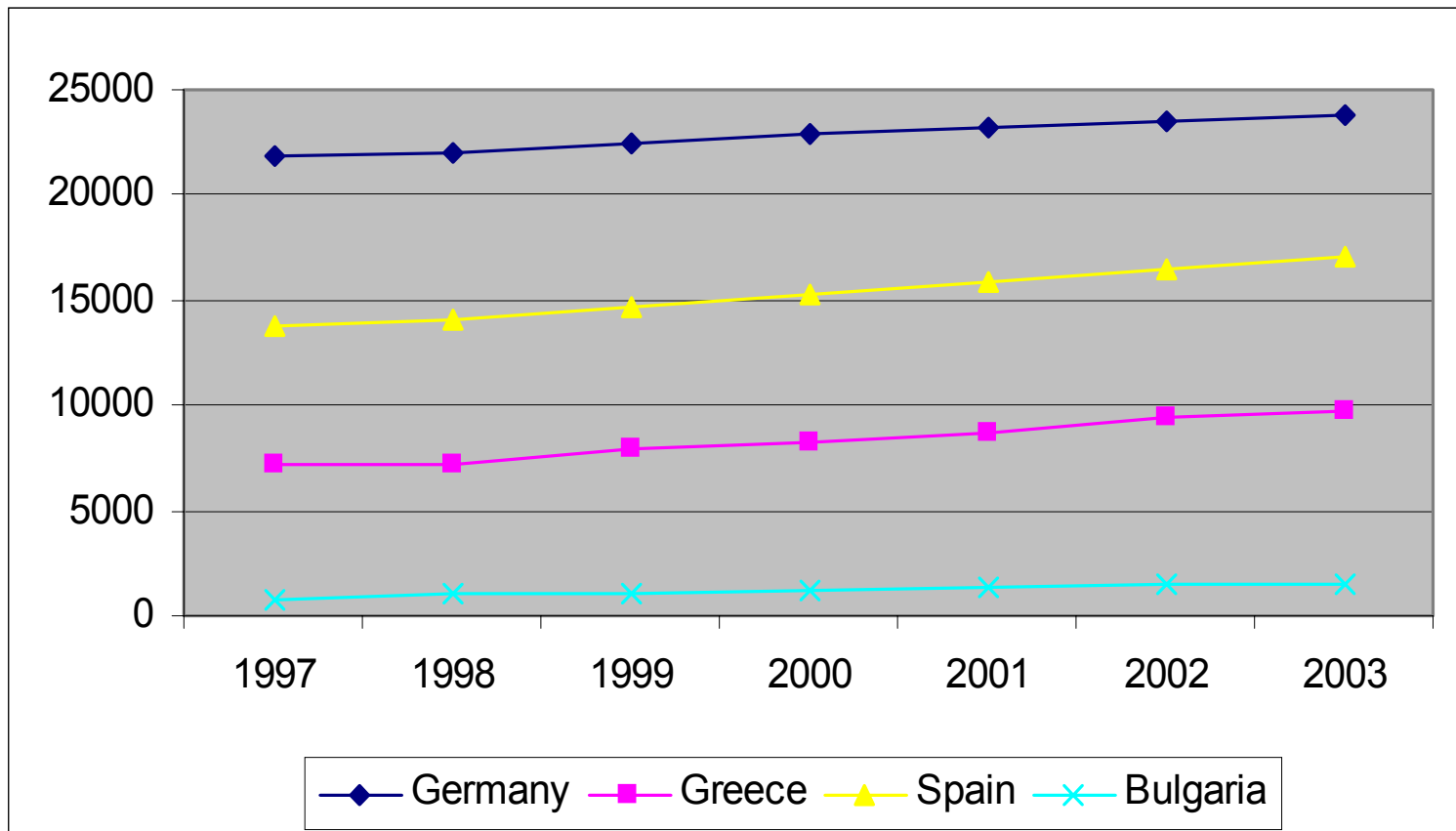
Source: Dr. Markova, ELIAMEP, Official Statistics

GDP per capita at PPP (Shadow Economy incorporated – EURO)



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Annual gross wages (euro)



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Productivity (EU15=100)

	1997	1998	1999	2000	2001	2002	2003
Bulgaria	26.3	27	27.9	29.9	31.1	31.2	30.6
Germany	98.2	97.6	97	96	95.2	94.9	95.5
Greece	82.7	78.2	79.7	81.9	84.8	89.4	91.4
Spain	94	93.6	95	93.9	94.2	95.7	96.0

(Dec 31, 01)



Developments and trends

Wage differentials mostly stem from differences in productivity;

- Extrapolating 4% growth for Bulgaria and 2% for EU, convergence will take place in 55 years;
- The economic gap between Bulgaria and important migrant destinations as Spain and Greece remains roughly the same over the period 1997-2003 due to similar pace of economic performance;
- Income gap between Bulgaria and the EU appears to stay quite persistent and slowly narrowing.



Factors

- Interpret migration as an investment since the present costs must pay off in the future;
- Economic incentives (disincentives) for migration – incomes, sustainability, predictability, expected costs, expected benefits, risks, preferences, access to information;

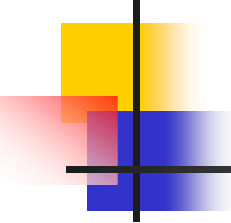
The size of remittances and their share of main macro-indicators

	Remittances (euro mln.)	As a percent of			
		Exports	Imports	GDP	FDI
1998	170.2	3.18	3.2	1.48	35.61
1999	233.3	4.3	3.81	1.92	30.75
2000	305.9	4.01	3.66	2.24	27.82
2001	472.5	5.83	5.01	3.11	52.94
2002	531.7	6.22	5.45	3.22	55.9
2003	613	6.48	5.5	3.48	49.64



The myth of “educating” the migrants

	2001	2002	2003
Remittances	472.5	531.7	613.0
As % of budget expenditures on			
Education	77.5	76.8	87.9
Healthcare	77.3	72.3	84.6



Study	Country	Results for unrecorded remittances as percent of recorded
Mahmud (1989)	Bangladesh	20%
Adams (1991)	Egypt	above 30%
ESCAP (1986)	India	40%
Kazi (1989)	Pakistan	43%
Tan and Canlas (1989)	Philippines	55-60%
Brown (1995)	Tonga and Western Samoa	43%
Choucri (1986)	Sudan	85%
Tingrabadth (1989)	Thailand	18%



Macroeconomic effects

- Accumulation of foreign exchange reserves
- Improved standard of living
- Increased disposable income
- Increased spending on consumer goods
- Higher prices of some goods



What to expect from remittances?

- Their size has more than tripled from 1998 to 2003. The annual average growth is around 29 per cent. These growth rates are not even and in the first years they are higher, reaching 54 per cent in 2001.
- The ratio of remittances to the main macroeconomic indicators such as export, import, GDP and FDI has gradually risen. This reflects the growing importance of the remittances as a source of incomes to a particular part of the population and their relatively better position in comparison to people not receiving such funds.
- The slowing down of growth rates suggests that sooner or later the peak of these transfers may be reached and, eventually, they may start to stagnate or even fall down. Our realistic proposition is that the present growth rates will be kept during the next years.



Income Tax

- Greece – 5-40%
- Spain – 15-45%
- Italy – 23-45%
- Germany – 16-45%



Social Security Contributions

- Greece – 43.9%
- Spain – 28.3%
- Italy – 39-46%
- Germany – 41.2%



Corporate Taxes

- Spain – 35% + local tax
- Greece – 35%
- Italy – 33% + local tax
- Germany – 38.5% (incl. local tax)



Value-Added Tax

- Greece – 18% (8%, 4%)
- Spain – 16% (7%)
- Italy – 20% (10%, 4%)
- Germany – 16% (7%)



Conclusions (from behind)

- Business environment factors – seemingly most important is non-taxable income gaps.
- I.e. emigrants fall everywhere in the non-taxable brackets of the personal income; this is because of the fact that most narrow income gap to emigration destination is 7 time.
- The income gap between Bulgaria and EU appears to remain quite persistent.
- There are little measures to fight this, the only reliable one is increasing disposable income (reducing domestic taxes, quasi-taxes and removing barriers to prosperity).



Conclusions (other taxes)

- Other taxes significant for those who are better off, and/or register.
- Due to original (and overall) motivation getting over the thresholds may not necessarily lead to formalization of economic behavior, and certainly requires “should-I-stay-or-should-I-go-back” decision.
- Factoring-in social welfare contribution/benefits is difficult: they depend on bi-lateral treaties, value-for-quality constellations and carrier prospect.



Conclusions

- The illusion the “we feed (cure and educate) them but they emigrate” and impose costs on the home country (Bulgaria), on “us” is justified even if we take into account unrecorded remittances and the “net”, shadow price of health and education.
- Trickle down effects are great: In 2003, in terms of human life benefits, remittances contribute to 340,000 annual average wages and “saved” 3,405 human life a year (calculated as value of the human life in life insurance patterns).



Conclusions: Bulgaria as a host country

- Studied once – 1999-2000, 50% net societal gains per immigrant (pessimistic estimate); need for additional surveys;
- Policies to control domestic (labor) markets are stupid and counter-productive;
- Obvious interim stop, since recently attractive for fellow Slav tribes and neighboring countries.



Conclusions (on the profile)

- Bulgarian emigrants are about 0.11% of the total – twice smaller number than Bulgaria share in the global population.
- The number is not likely to grow rapidly, provided pro-stability and prosperity policy-mixes kept on track.
- It seems that in EU they are at least twice more likely than the “average” migrants to work in the shadows. Remittance trends – not clear, need for survey of unrecorded transfers.

Some prosperity measurements 1989 - 2003

Indicators (average annually)	1990-1997	1998-2003
Inflation	210.1	5.65
Inflation tax	57.7	7
GDP growth	- 4.7	4.16
Investments growth	- 8.8	19.2
Budget	- 6.3	0.05
Debt/GDP	168	71.2
	1990-1996	1997-2003
FDI (US\$)	63.2 mln.	857.1 mln.
FDI (% GDP)	0.8	6