IS THERE A REVERSE WELFARE MAGNET?
The Effect of Social Policy in Developing Countries on International Migration

Edo Mahendra

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www.migrationdeterminants.eu
BACKGROUND

• Too much focus on receiving country (welfare magnet)
  • Evidence is mixed, at best; depending on empirical design and context
• Too much focus on income indicators (output indicators)
  • The effect of economic development
  • The effect of between-country inequality
  • The effect of within-country inequality
• Lack of research on the impact of non-migration policies in developing countries, especially macro-level studies
  • Micro-level studies typically look into the effect of cash transfers
DEFINING SOCIAL POLICY

• What is social policy?
  • “The policies which governments use for welfare and social protection” (Spicker, 2014)
  • To address the “Five Evil Giants” in society (Beveridge, 1942)
    – Want (poverty)
    – Ignorance (insufficient education)
    – Squalor (poor housing)
    – Idleness (unemployment)
    – Diseases (ill-health)

• Dimensions of social policy focused in this paper:
  • Education
  • Health
  • Social Protection
• Gap stemming from GDP per capita is substantial; public expenditure per capita, nonetheless, is not that far behind
• Developing countries catching up advanced economies through higher growth rates
• Hinting that the lure for international migration might be motivated by both income-maximisation as well as risk-minimisation
• There is indeed a huge gap in the provision of social policy between developing and developed countries
• If we unbundle social policy components, social protection is the one with the largest gap
• Direct (targeted) social policy, is likely to be a pull-factor
• A: Welfare Magnet
• B: Reverse Welfare Magnet
• C: Multilateral Welfare Magnet
DATA AND EMPIRICAL STRATEGY

• Data
  o DEMIG C2C (IMI) -> bilateral migration flow
  o SPEED (IFPRI) -> social policy
  o WDI (World Bank) & CEPIII -> other control variables
  o Time-series: 1981-2011
  o Cross-section: 20 receiving countries & 104 sending countries: ‘South-North’ migration

• Empirical Strategy
  o Gravity Model: poisson pseudo-maximum likelihood (PPML)
  o To address potential endogeneity bias -> instrumental variable
  o Focus on sending country determinants -> destination-time dummies
## RESULTS I

<table>
<thead>
<tr>
<th>Variable</th>
<th>PPML</th>
<th>PPML</th>
<th>PPML</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log GDP per Capita</td>
<td>0.509***</td>
<td>0.529***</td>
<td>0.303*</td>
</tr>
<tr>
<td></td>
<td>(0.162)</td>
<td>(0.160)</td>
<td>(0.165)</td>
</tr>
<tr>
<td>Log Education per Capita</td>
<td>-0.162***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.053)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log Health per Capita</td>
<td></td>
<td>-0.174***</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.048)</td>
<td></td>
</tr>
<tr>
<td>Log Social Protection per Capita</td>
<td></td>
<td></td>
<td>-0.034</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.034)</td>
</tr>
<tr>
<td>Other Controls</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Origin Dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Destination-Time Dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Constant</td>
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<td>Yes</td>
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<tr>
<td>Observation</td>
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<td>23,494</td>
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### RESULTS II

<table>
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<tr>
<th>Variable</th>
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<tbody>
<tr>
<td>Log Education per Capita</td>
<td>-0.999 (0.964)</td>
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<tr>
<td>Log Health per Capita</td>
<td>-0.835** (0.368)</td>
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<tr>
<td>Log Social Protection per Capita</td>
<td>-0.545* (0.310)</td>
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<tr>
<td>Other Controls</td>
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<tr>
<td>Origin Dummies</td>
<td>Yes</td>
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<tr>
<td>Destination-Time Dummies</td>
<td>Yes</td>
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<tr>
<td>Constant</td>
<td>Yes</td>
</tr>
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<td>Observation</td>
<td>23,494</td>
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</table>
## Reduced-Form Regression

<table>
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<tr>
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<th>IMF (sum of programs, min. 5 months)</th>
<th>-0.044** (0.020)</th>
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<tbody>
<tr>
<td>Other Controls</td>
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<tr>
<td>Destination-Time Dummies</td>
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<tr>
<td>Origin Dummies</td>
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<td>Observations</td>
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<td>R-Squared</td>
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<td>0.79</td>
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</tbody>
</table>

- Keep the PPML estimates
- Need to slightly over-identify the IV-PPML to get better diagnostics
- Conduct 2-stage residual inclusion approach (control function model)
- Exploit the panel-time series potential of the data: common correlated effects mean-group (CCE-MG)
MECHANISM I:
RISK-DIVERSIFICATION

- If social policy has substantial impact and greater substitution effect which effectively reduce income & production risks, it shall reduce incentives to migrate / send family members for migration.
- Income effect: lifting of liquidity constraint which increases capability to migrate.
- Substitution effect: reducing the opportunity cost of no further risk-diversification through migration.
- More ‘universal’ or ‘conditional’ social policy should result in greater substitution effect on migration, so that it reduces incentives for migration.
MECHANISM II: REDISTRIBUTION

- This is a simple representation of migration aspiration & capability
- A(m) is migration aspiration; C(m) is capability
- Diminishing marginal aspiration to migrate as capability increases
- Individuals are risk-averse to migration-induced risk
- Consistent with migration transition model at the macro level
This is a hybrid migration decision framework, inspired by Alonso model of residential choice.

- **M** is to send more family members for migration / higher propensity to migrate
- **S** is to send less family members for migration / higher propensity to stay
- **CA** is the increase in (im)mobility value as functionings due to greater capability
This chart combines the aspiration-capability and the hybrid migration decision models assuming capability increases proportionally to economic development.

- $W$ is the effect of social policy at home (reverse welfare magnet).
- For a given capability, social policy that effectively reduces relative deprivation, decreases migration aspiration.
CONCLUSIONS

Findings
• There is evidence of a ‘reverse welfare magnet’ effect of social policy on migration
• The ‘reverse welfare magnet’ could be explained by two mechanisms: (i) risk-diversification effect; (ii) redistribution effect

Policy Implications
• Better provision of livelihood security through more comprehensive welfare regime in developing countries might help to control migration
• Policy that provides the ‘right’ incentives that tweak the determinants of migration aspirations might be key.
THANK YOU!