

## RESEARCH BRIEF

# WELCOME HOME IN A CRISIS: EFFECTS OF RETURN MIGRATION ON THE NON-MIGRANTS' WAGES AND EMPLOYMENT

AUTHORS: Ricardo Hausmann and Ljubica Nedelkoska  
CID Faculty Working Paper No. 330  
January 2017

### Background

Over the past few decades, migration from developing to developed countries was often viewed as 'brain drain', as talented workers were forced out of their home countries due to lack of competitive opportunities. The population that left these countries and settled in the more economically advanced parts of the world have, over time, acquired financial capital and built social networks within host countries. Hence, while the home countries were still suffering from the scarcity of knowhow, significant shares of their populations began to actively engage in more productive economies. It seems that, through migration, developing countries had unexpectedly created significant networks of human and financial capital abroad.

But are these foreign networks transferring knowhow back to their home countries? It turns out that those same reasons that induced the economic migration in the first place, often make it difficult for migrants to engage afterwards. What would happen, however, if a large proportion of these diasporas was forced to return back to their home country - would that lead to knowhow transfer? **Our study investigates the impact of such an abrupt return migration wave between Greece and Albania.**

### Research Insights

The fall of the communist regime in Albania in the early 1990s resulted in mass emigration up until the following decade. Today, about a third of the Albanian-born population resides outside Albania, of which about 40% (some 600,000 Albanians) resided in Greece in 2009. In that year, however, the economic situation in Greece started deteriorating. The Albanians, comprising the largest minority group, were particularly affected - while unemployment rate of Greek nationals reached 27%, the one of Albanian nationals reached 40%. This spurred a wave of return migration that increased Albania's labor force by 5% between 2011 and 2014 alone. Mainstream economic theory would predict that such shock to the home labor market would increase the unemployment rate and depress average wages at home. Such reasoning is rooted in the assumption that return migrants have the same skillset as the home population and are hence interchangeable. **This is not what our main findings suggest.** We find that in the regions where the migrants returned, wages of the low-skilled Albanians who never migrated (non-migrants) **increased**, while those of the skilled Albanians remained **unaffected**. **We also find that non-migrants were more likely to find a job where a higher share of migrants had returned.**

What drives these effects on employment and wages? **We observe that return migrants are significantly more entrepreneurial and are about three times more likely to employ others vs. non-migrants.**

This means that return migrants do not rely on existing jobs as much as they rely on own job creation. Moreover, in addition to creating jobs for themselves, they are creating jobs for others, particularly in Albania's large agricultural sector. Here, **return migrants bring technologically advanced ideas and create export opportunities which bring about higher incomes.**

While these findings spur optimism, a more complete analysis of the costs and benefits of return migration asks for more caution. The return migration did not only create benefits for the non-migrants, it also caused losses. In 2008 remittances to Albania spiked at 11% of GDP and then fell to 8.5% of GDP in 2014. We compared the non-migrants' gains from return migration in terms of wage growth and employment with the losses resulting from lower remittances. Our estimates of the gains vary, depending on the assumptions, between 0.6 and 1.5% in GDP annually, offsetting between 38 and 94% of the annualized losses in remittances. **This suggests that, at least in the short run, the gains of return migration were not larger than the losses induced by it.**

## Policy Implications

Contrary to what the economic theory would anticipate, the return migration did not depress wages and did not reduce the employment chances of the non-migrants. In fact, **aggregate effects on wages and employment are positive, suggesting that return migrants complement, rather than substitute non-migrants on the labor market.**

This suggests that the potential for productive cooperation with the diaspora is real and significant and that governments should stay open for and in contact with their migrant communities.

**Policymakers could think of their diasporas as potential sources of knowhow and capital that they can mobilize.** Programs designed for active collaborations with the diasporas that help governments learn about the level of development, professional interests and needs of the diaspora, seem sensible policies for diaspora engagement to start with. However, these findings do not suggest that governments should invest in programs that encourage return migration, such as return grants. If the economic state of Greece would not have deteriorated, many return migrants and their families would have probably been better off, economically at least, in Greece. Moreover, the entrepreneurship environment in some home countries might be objectively difficult, rendering little return to the skills of the return migrants.

## Download the paper

[http://growthlab.cid.harvard.edu/files/growthlab/files/return\\_migration\\_cidwp\\_330.pdf](http://growthlab.cid.harvard.edu/files/growthlab/files/return_migration_cidwp_330.pdf)

## ABOUT THE AUTHORS



Ricardo Hausmann  
@Ricardo\_Hausman

Director of the Center for International Development;  
Professor of the Practice of Economic Development at  
Harvard University



Ljubica Nedelkoska  
@LjubicaNed

Growth Lab research fellow at the Center for  
International Development at Harvard University