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Making a living in two labor markets: Earnings of Filipinos in the global and the domestic economy

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ABSTRACT

The present research examines earnings differentials between Filipino overseas global labor migrants and Filipinos employed in the domestic labor market (i.e. the Philippines) as well as income differentials between households of overseas workers and households without overseas workers. Data were obtained from the survey of households conducted during 1999–2000 in the four primary sending areas of overseas migrant workers. The data set for the present analysis consists of 4393 domestic workers and 1176 global migrant workers. The findings demonstrate that the average earnings of those employed in the Philippines is not only lower than the average earnings of Filipinos employed in the global market (regardless of region of destination) but their earnings distribution is also much more condensed than earnings distribution of Filipinos working in the global labor market. The multivariate analysis reveals that earnings returns in absolute terms (to education and occupations) are considerably higher among migrants employed in the global labor market than among those employed in the domestic labor market. By contrast, earnings returns in relative terms are lower for global labor migrants than for those employed in the domestic labor market (despite some variations across regions of destination). The results also suggest that earnings generated in the global labor market form a new source of economic inequality between households in the Philippines. Specifically, income of households with labor migrants tends to be considerably higher than that of households without labor migrants. The findings imply that global migration should be understood within the framework of 'household theory of migration'.

1. Introduction

The literature on global labor migration contends that labor migration is an economic strategy often adopted by households in poor countries to combat poverty and to increase standard of living of family members left behind. According to the household theory of migration, family units send members of the household to work in the global labor market in order to increase flow of income and to decrease economic risks of the family (Massey, 1990; Massey et al., 1993; Stark, 1984). Indeed, research on the topic has repeatedly demonstrated that earnings of labor migrants are considerably higher than the earnings they had prior to migration (Go, 1998; Jasso & Rosenzweig, 1990; Semyonov & Gorodzeisky, 2004; Semyonov, 1986) and that migrants remit considerable

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portions of their earnings back home (e.g. Kumo, 2012; Semyonov & Gorodzeisky, 2005). Therefore, earnings gains and the ability to remit back home are often viewed as the major motivations driving global migration (Alipio, 2013; Gerber & Torosyan, 2013; Koc & Onan, 2004).

Despite the growing literature on labor migration, to the best of our knowledge, with only one notable exception (Clemens, Montenegro, & Pritchett, 2009), no study has yet systematically compared earnings of those who stayed in the home country (i.e. domestic labor market) with earnings of global labor migrants (i.e. employed in the global labor market). To-date, most studies on the topic compares earnings of labor migrants in a host country with earnings of native population of the host country (e.g. Adsera & Chiswick, 2007) or earnings of labor migrants in a host country with their earnings in a country of origin prior to migration (e.g. Semyonov & Gorodzeisky, 2004). Furthermore, no one has examined whether and to what extent the rules according to which earnings are determined differ for labor migrants in the global labor market as compared to those employed in the domestic labor market (i.e. country of origin).

The contribution of this paper, thus, is three-fold. First, we examine and estimate the actual differences in earnings between global labor migrants (from the same country of origin) and earnings of those employed in the country of origin (i.e. domestic labor market). Second, we examine earnings determination in the global versus domestic labor market and investigate the extent to which earnings determination differs across regions of destination at the global labor market. Third, we estimate the impact that remittances exert on economic inequality between households with and without labor migrant in a sending country. By utilizing data for the Filipino society, we will be in a position to understand better the ways in which global and domestic employment inter-relate and intertwine.

2. Theoretical considerations and previous research

The literature on socio-economic inequality contends that one of the major reasons why individuals are differentially successful in the attainment of economic rewards and standard of living is because they live and work in different places. According to this literature, places represent local labor markets and as such, they capture differentiation in the distribution of economic opportunities across space. That is, places, whether cities, regions or states, represent the local opportunity structure, which affects, in turn, individuals' opportunities for achievement of economic success.

In his pioneering classic book on Social Mobility, Sorokin (1927) has argued that individual's economic achievement and opportunities for upward social mobility are influenced by one's innate abilities but also by characteristics of one's local labor market. Following Sorokin's seminal work students of social stratification and inequality have repeatedly demonstrated that individuals who live in places with depressed economic conditions, scarce occupational opportunities and limited industrial structure are less likely to attain lucrative jobs and earn high salaries as compared to those living in places with abundant economic opportunities, developed industrial base and diversified economic structure (e.g. Lewin-Epstein & Semyonov, 1992; Semyonov, 1988; Spilerman & Habib, 1976). Furthermore, researchers have shown that the local opportunity structure exerts significant impact on individuals' occupational and economic rewards net of their socio-demographic and human capital resources (e.g. Lewin-Epstein & Semyonov, 1992; Logan, 1978; Parcel & Mueller, 1983; Semyonov, 1981).

Labor markets differ by their opportunity structures because of variation in their social, occupational and industrial composition. Labor markets with solid and diversified economic base are more likely to provide opportunities for incorporation of trained and skilled labor than places with depressed and limited economic structure. Likewise, places with diversified occupational and industrial structures are associated with a wider range of employment opportunities and are more likely to reward workers according to their skills, human-capital resources and productive capacity. Indeed, developed and rich economies as compared to depressed local labor markets are more likely to pay high-skill workers high salaries and to reward them according to their skills and productivity.

One of the most common and logical strategies adopted by individuals to avoid detrimental consequences of living and working in poor and depressed economic system is migration. Subsequently, researchers have traditionally explained flows of migration as stemming from asymmetrical structural relations between the less economically developed regions and rich industrialized areas. Whereas the formers are characterized by high rates of unemployment and underemployment, unstable economies, low wages, limited opportunities for mobility, and surplus of labor, the latter group of places is characterized by relatively expanding, stable, and diversified economies, high wages and demand for labor (Goss & Lindquist, 1995; Krane, 1979; Stalker, 1994). Indeed, people migrate from countries with capital scarcity and labor abundance where wage returns on human capital resources are low to countries of capital abundance and labor scarcity where wage returns on human-capital resources are relatively high (e.g. Goss & Lindquist, 1995; Massey et al., 1993, 1998; Stalker, 1994).

In recent decades, especially during the era of globalization, the readily available supply of workforce in poor countries has been used to meet the demand for labor, especially cheap labor, in rich industrialized countries. This is often done through guest worker programs, temporary employment arrangements and contract work organizations (e.g. Castles, 1986; Piore, 1979). Consequently, in recent decades the number of labor migrants and contract workers have intensified and reached record high with more and more migrants leaving their homeland in search of better employment opportunities and higher wages in the global market (King, 2002; Massey et al., 1998; Piore, 1979).

Unlike the 'traditional-permanent immigrant', labor migrants and contract workers leave family members behind in the homeland and support them through delivery of remittances (e.g. Durand, Parrado, & Massey, 1996; Gerber & Torosyan, 2013; Itzigsohn, 1995; Rodriguez &