

Return Migration and Occupational Choice: Evidence from Albania

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Summary. — This paper explores the impact of return migration on the Albanian economy by analyzing the occupational choice of return migrants while explicitly differentiating between self-employment as either own account work or entrepreneurship. We find that the own account workers have characteristics closer to non-participants in the labor market (i.e., lower education levels), while entrepreneurship is positively related to schooling, foreign language proficiency, and savings accumulated abroad. Furthermore, compared to having not migrated, return migrants are significantly more likely to be entrepreneurs, showing the positive impact of migration on job-creating activities in Albania.

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1. INTRODUCTION

Many studies in economics focus on analyzing whether return migration and remittances are economically beneficial for emigration countries. Returning migrants are assumed to bring with them additional human capital, while migrants' remittances often help to ease poverty and provide a means of investment in small- and medium-size businesses, in the presence of capital constraints (see OECD, 2008). Consequently, return migration and remittances are perceived to have an important potential for promoting growth and development, which prompted policymakers in both migrant host and home countries to encourage efforts to understand and facilitate return/circular migration, channel a bigger share of remittances through the formal financial systems, as well as encourage their use for productive investment (see Dayton-Johnson, Katseli, Maniatis, Münz, & Papademetriou, 2007; World Bank, 2005).

This paper adds to the existing literature by analyzing the impact of migration on Albania's labor market by looking at the economic activities of return migrants. Recent research on the occupational choice of return migrants has tried to explain the propensity of returnees to become self-employed. The arguments used, for example, are the role of remittances and repatriated savings in overcoming capital constraints (Ilahi, 1999; Mesnard, 2004) and the accumulation of human capital (i.e., business skills and ideas) through exposure to the host country's market economy environment (Dustmann & Kirchkamp, 2002; McCormick & Wahba, 2001).

A key element missing from the existing literature is the distinction between different types of self-employment. This distinction is important since working on own account is likely to have a weaker direct impact on employment (and hence growth) compared to entrepreneurship. de Mel, McKenzie, and Woodruff (2008) show that the two groups of self-employed are distinctive also in terms of observed characteristics: over 2/3rds of the own account workers in Sri Lanka have cognitive ability, personality, and ambition more similar to

(or even below) wage workers rather than business owners with paid employees (i.e., entrepreneurs). They show that despite equal access to micro-lending only a minority of own account workers are likely to expand by adding paid employees, the main reason for that being the lack of ambition and business skills. Studies on occupational choice also point to the fact that self-employment activities in developing countries are mostly in the form of own account work.¹ If this is also true for return migrants, then their economic impact on the home economy would be weaker than expected.²

In this paper, therefore, we study the occupational choice of return migrants by explicitly differentiating between the propensities of returnees to become self-employed as own account workers (i.e., without having any paid employees) and as entrepreneurs (i.e., owners of firms with paid employees). We do this by allowing the choice to be made from four alternatives: non-participation, wage employment, own account work, and entrepreneurship.

The consideration of the other alternatives has policy relevance as well. Considering that they earn abroad and consume in Albania, return migrants not participating in the labor market could have a marginal positive impact on the economy, at least at the regional level, as long as the increased demand is met by an increase in production capacities and/or output. However, if the local production capacities fail to adjust, the increased demand might generate inflation and/or have an adverse effect on the current account (see World Bank,

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2005). Wage employees could have a positive effect on labor markets too, if they meet shortages that hinder the development of the economy and/or bring with them additional skills accumulated abroad. Therefore, our main research questions are: how does migration affect the occupational choice of returnees? How is the aggregated effect on self-employment divided between own account work and entrepreneurship? Which of these two effects is stronger? What are the differences in characteristics among returnees in the various occupational groups and how do these differ compared to non-migrants?³

After taking into account the possible sample selection into return migration, we find that, in Albania, own account workers have characteristics closer to the non-participants in the labor market (i.e., lower education levels), while entrepreneurship is related to secondary and tertiary education levels, proficiency in Italian (i.e., the language of Albania's main trading partner), and target saving migration. Albanian own account workers, irrespective of their past migration experience, have lower average incomes compared to both entrepreneurs and wage employees, indicating that they are rather a marginalized group. Nevertheless, our results show that with the time spent in Albania after return, returnees opting for non-participation or own account work do re-integrate into the labor market and find a way into paid employment, confirming Harris-Todaro's "parking lot" hypothesis.⁴

Furthermore, our results provide some reconciliation for the divergent empirical findings with respect to the characteristics of self-employed returnees. For example, McCormick and Wahba (2001) found evidence that self-employed returnees in Egypt are literate but with a low education level. Similarly, Ilahi (1999) showed that higher skilled returnees to Pakistan exhibit a greater propensity for wage employment over self-employment as they command higher wages in the labor market. He argues that unskilled workers are often left outside the labor market and choose to engage in own account activities that do not require labor market skills, for example, small trade or workshops. On the other hand, Dustmann and Kirchkamp (2002) and Radu and Epstein (2007) found a positive relationship between schooling and self-employment activities in the case of return migrants to Turkey and Romania, respectively, and explain this by the fact that education may have a positive effect on the returns to self-employment activities and, therefore, increase the probability of higher skilled returnees to choose this option. A priori, such a positive relationship between schooling and self-employment is more likely to be present in the case of entrepreneurs rather than own account workers.

The remainder of the paper is structured as follows. The next section gives an overview on the developments in the Albanian labor market that led to international migration, return migration, and occupational structure to which our data refer. Furthermore, it gives some stylized facts on the occupational choice of non-migrants and return migrants. Section 3 presents the empirical approach while Section 4 discusses the results. Concluding remarks appear in the final section.

2. BACKGROUND AND DATA

Since the fall of the Iron Curtain, Albania has become a country of mass emigration. It is estimated that at any given time more than 25% of its population lives abroad, which is by far the highest proportion amongst the Central and East European countries. Although Albanians have migrated to several countries around the world including United States, Canada, Australia, and a number of EU countries, the biggest

two recipients of Albanians have been by far Greece and Italy. Estimates suggest that Greece and Italy together account for approximately 80% of the migrants, with Greece as the leading destination because of its geographical proximity (Vullnetari, 2007).

One of the main reasons for migration is employment opportunities, with the majority of those who were unemployed in Albania (53%) intending to migrate for a short spell abroad (European Training Foundation, 2007). The main push factor for migration is the lack of demand for labor, particularly in the formal sector, which has forced people to start their own income-generating activities. However, in the presence of credit constraints and the lack of entrepreneurial abilities this is not always possible. Hence migration serves two purposes: to obtain gainful employment, which could contribute directly or indirectly toward human capital accumulation⁵ and/or to raise financial capital from higher wage income abroad in order to start up a business upon return.

Return migration in Albania is a relatively recent phenomenon. According to estimates, over 70% of the returnees came back to Albania after 2001, when the socio-economic and political situation started to improve (European Training Foundation, 2007). Own estimates show that return migration is an important phenomenon—about 1/3rd of the individuals who migrated after 1990 returned by 2005—and hides different realities too. Almost 36% of the returnees expressed their intention to re-migrate, with about half of them intending to resettle permanently.

The dataset used is the 2005 Albanian Living Standards Measurement Survey (ALSMS), a survey conducted by the Albanian Institute of Statistics (INSTAT) with technical support from the World Bank. The data is based on a representative survey of 3,640 households (17,302 individuals) and contains detailed information about the individual characteristics (e.g., gender, age, education, occupation, income [if working], and migration history), household characteristics (e.g., subjective economic status, marital status, and number of children), community and regional characteristics (e.g., regional location; rural/urban location; access to banking, electricity, and piped water), and non-farm business activity (e.g., type of business, employment of household and non-household labor).

The individual's main occupation is self-reported and contains the following categories: (1) employee of someone who is not a member of the household; (2) paid worker in household farm or non-farm business of a household member; (3) employer/entrepreneur; (4) worker on own account; and (5) unpaid worker in a household farm or non-farm business. We merged the first two categories under "wage employee" and excluded from the sample the unpaid workers (i.e., 459 observations).⁶

A migrant is defined as a person who migrated abroad for at least one month, for non-family visits, since turning age 15. Migration from Albania is predominantly male: only about 11.3% of the return migrants are female (see also Azzarri & Carletto, 2009). The proportion of females in the potential labor force returnees⁷ is even lower (6.5%), confirming evidence from a survey conducted by the European Training Foundation (2007). Due to the small sample size and the different participation rates, females are excluded from the analysis. After excluding also all observations with missing values for the variables included, the sample contains 962 return migrants, representing about 32% of the male potential labor force aged 20–64 (i.e., 3,011 males).

Return migrants are on average five years younger than non-migrants, significantly less educated (i.e., the tertiary education rate is 7.0 percentage points lower and the primary

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