

Emigration and Economic Growth (*)

Introduction

Economic analysis is unclear whether emigration helps or hurts a country. The issue is sharply joined in Greece, and has been discussed earlier in Southern Italy. But it is a vital one along the whole Mediterranean littoral from Portugal to Turkey. In February 1965 the Greek periodical *Epochs* asked a series of correspondents whether emigration was a blessing or "anathema", and collected the complete spectrum of opinion (1). A. Protopapadakis believes in letting the individual choose his own destiny, and is willing to tolerate emigration. Andreas Papandreou and A. Pepelasis think it is a major block to Greece's economic development. In between is P. Kanellopoulos who states that ancient Greek colonization of the Mediterranean had been a blessing, as was the traditional overseas emigration of Greeks; but that the same cannot be said of temporary Greek emigration to Germany, which is merely good.

The dispute echoes an ancient economic debate. On the one side are Myrdal and Gini who regard emigration as the export of capital, inappropriate for poor countries. The native economy raises young people to adulthood, feeding and educating them for years without a return, only to lose them at the beginning of their productive years. This reasoning, which bears a family resemblance to the "investment in human capital" theories of T.W. Schultz, goes back in the Italian literature to the turn of the century (2). On the

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(1) See *Epochs* (Athens), February 22, 1965, pp. 32-47.

(2) See G. Cosmo, "Italian Emigration up to 1940", Banca Nazionale del Lavoro *Quarterly Review*, Nos. 28-29 (January-June 1954), p. 85.

other side is the equal authority of W. A. Lewis, Ragnar Nurkse, Vera Lutz, and most recently John Fei and Gustav Ranis, who emphasize the benefits of getting unemployed or disguised unemployed to work. The analysis is put mostly in terms of transfers from unemployment in agriculture to industry or social overhead capital in the same country (3), but it can be extended easily to emigration. Paul Rosenstein-Rodan has said that the less developed countries are to the developed, as agriculture is to industry. With migration the simile is exact.

The debate runs parallel to a series of other spatial issues in the literature of economic development. Should labor be brought to factories or the factories to the labor? Is it useful to educate peasant youth or will this merely speed up rural exodus and deprive the agricultural sector of its most able and energetic recruits? Is economic integration always helpful or does it run the risk, for an area which starts out behind in economic development, that capital and labor will be drawn to the more advanced areas and hurt the lagging region rather than help? (4). Should investment priority go to the leading region in the hope of spillovers, or should the developing centers be held back while investment helps the laggards to catch up?

This discourse can proceed on a variety of levels. Here we present separately the arguments for and against emigration from developing countries in static and dynamic terms. The main static benefits are remittances and forgone consumption. Static losses are the direct reduction in output previously produced by the migrants, if any, and the "export of human capital". The dynamic effects could include external economies and diseconomies, such as the cheapening of raw-material imports which was a consequence of European migration overseas in the 19th century. Our present interest, however, is in intra-European South-North migration, where these dynamic effects are believed small and are consequently ignored. For the rest, dynamic hurt comes from the loss of factors strategic to economic growth: potential entrepreneurs, skilled labor, etc., and a slowing down of the rate of population growth, which

(3) See esp. JOHN C. H. FEI and GUSTAV RANIS, *Development of the Labor Surplus Economy: Theory and Policy*, Homewood, Illinois, Richard D. Irwin, Inc. 1964.

(4) See the separate opinion of MAURICE BYÉ in I. L. O., *Social Aspects of European Integration*, A Report by a Group of Experts, Geneva, International Labor Office, 1956, pp. 119-139.

may inhibit development. The dynamic gains, on the other hand, consist in higher income of those left behind which may speed growth through balancing demand or stimulating investment, in training of the emigrants who return, but above all in the shift of the economy from a disequilibrium system, in which workers are paid more than their marginal product, to equilibrium pricing which encourages investment and effective resource allocation.

Our interest, as already noted, is in South-North migration in Europe. Some data on the scale of the movement in the three major countries of immigration are presented in Table I. It is hardly necessary to indicate that the figures are collected on widely differing bases and are far from comparable or additive.

TABLE I

EMIGRANT WORKERS IN FRANCE, GERMANY, SWITZERLAND ABOUT 1963
(in thousands)

Country of Origin	France * (1962)	Germany ** September 1963	Switzerland *** (controlled workers) February 1964
Spain	431	151	54
Greece	9	155	..
Italy	645	296	335
Portugal	50	3	..
Turkey	16	85	..
Total of above	1,151	690	389
Total foreign workers	1,816	829	526

. . . not separately specified.

* Census of 1962. Source: "Les Travailleurs Etrangers en France", *Notes et Etudes Documentaires*, La documentation française, No. 3,057, 23 janvier 1964, p. 16. Numbers exclude Algerians.

** Bundesanstalt fuer Arbeitsvermittlung und Arbeitslosenversicherung, *Auslandischer Arbeitsnehmer*, Beilage zu No. 2 der ANBA vom 26 Februar 1965, p. 37.

*** "Les Soutiers de l'Europe", *Le Monde*, 25 juin 1964. In addition to controlled workers, there are perhaps another 300,000 foreign workers, largely Italians, who have obtained permits to reside in Switzerland free of control. The February figures also ignore a large seasonal movement into the country in summer.

Static Arguments - Remittances

Remittances to the country of origin represent support for family and close relatives, or savings sent or brought home as capital. The emigrant is enabled to remit monies because he earns more abroad

than he can at home, and because he limits his own consumption. His higher productivity abroad is a function of high demand, which creates employment, and a higher capital/labor ratio which increases the marginal productivity of his labor. He limits consumption because he has a specific goal in view, and the more he saves, the faster will he achieve it. It is not simply that the capital/labor ratio is higher; the emigrant works harder; and he lives at a lower standard of living than he would do at home (5).

If the workers were slaves, the flow of remittances could be regarded as the return on foreign investment. Since they are not slaves, the stream of remittances is not a contractual return but a voluntary act. The husband who goes abroad to earn and leaves his family behind him, or the young single worker who belongs to a close-knit family with a strong tradition of pooling earnings, will remit what they can of their earnings for their family's consumption. Where the worker has a particular target for capital formation — to buy a farm, or a house, or a fishing boat — remittances will be still higher. But the worker who brings his family abroad with him and settles there, or the young man who marries abroad, will gradually cut down on the amounts remitted. The average migrant remits in a pattern which is low the first months, as he becomes accustomed to foreign patterns of production and consumption, and picks up to remain high for several years. If the man or family returns, the remittances of course stop altogether. But if he remains abroad, they slowly decline and probably cease after half or more of a generation, to revive again sporadically in times of compassionate need at home.

Estimates of remittances are complicated by the deemed necessity to reconcile balance-of-payments and national-income accounts.

(5) See MAX WEBER, *The Protestant Ethic and the Spirit of Capitalism*, New York, Charles Scribner's Sons, 1958, p. 191, footnote 20: "That the simple fact of a change of residence is among the most effective means of intensifying labor is thoroughly established. The same Polish girl who at home was not to be shaken loose from her traditional laziness by any chance of earning money, however tempting, seems to change her entire nature and become capable of unlimited accomplishment when she is a migratory worker in a foreign country. The same is true of migratory Italian laborers. That this is by no means entirely explicable in terms of the educative influence of the entrance into a higher cultural environment... is shown by the fact that the same thing happens where the type of occupation, as in agricultural labor, is exactly the same at home. Furthermore, accommodation in labor barracks, etc. may involve a degradation to a standard of living which would never be tolerated at home."

The "permanent migrant", who may have every intention of returning *ex ante*, is regarded as making no contribution to national product of the country of his origin; his output is part of income in the country of immigration. His remittances are therefore a transfer. On the other hand, the seasonal or temporary worker abroad contributes to national product of his home country, but not that of the host, so that his remittances are net earnings, which derive from gross earnings — a credit in the balance-of-payments since the services are exported — and less his subsistence which is regarded as an import of food and services. Better data come from the foreign-exchange budget method of estimating the balance-of-payments, which is concerned with flows of funds in the exchange market. Table II collects estimates for receipts for the Mediterranean countries and payments by the main countries of immigration from a wide variety of sources:

EUROPEAN EMIGRANT REMITTANCES - 1963
(in millions of dollars)

TABLE II

Received from European emigrants of	Paid to European immigrants by
Greece 56	France 225
Italy 300	Germany 250
Spain 175-200	Switzerland 335
Portugal 70	
Turkey N.A.	

Source: Greece, Bank of Greece reports; Italy, Portugal, Spain, Germany, Switzerland, OECD *Economic Surveys*; France, Ministère des Finances, *Statistiques et Études Financières*, 17^e année, No. 193 (janvier 1965) Suppléments, pp. 22-26.

Remittances contribute both to foreign-exchange earnings and to capital formation. As foreign-exchange earners, they are superior to ordinary exports because there is no precedent payment to factors, which can spill over into imports. The remittance-multiplier is lower than the export-multiplier because of this difference in the first round of spending. Moreover, spending is probably smaller at the second round as well, because of the high marginal propensity to save out of remittances, and the fact that such part of them as is

spent on consumption goes to the subsistence of low-income groups with limited taste for foreign articles of consumption. Neither of these advantages is present in the case of Turkey where an over-valued exchange rate has long led foreign workers to withhold remitting until return, and then to bring back savings in the form of durable consumer goods — so-called *Strassenkreuzer* (street cruisers), or large American automobiles which are used for the *dolmus* business — half-taxi and half-bus — and ordinary durables such as radios, television apparatus, toasters, etc. The automobiles may make a contribution to Turkish development by enhancing mobility, but the durable consumer goods do not. The low marginal propensity to import of remittances, is, as has been said, combined with a high marginal propensity to save which raises savings and ultimately capital formation. The target of capital formation may have low productivity — a house with a high capital/output ratio, a fishing boat in the overfished part of the Mediterranean, a store in a dying village, or a farm with strong diminishing returns. In many cases, however, the saver will pay off a debt or buy an existing capital asset in one of these categories to permit the seller of the asset to invest in more productive fashion. And the dowries sought abroad by Spanish and Greek girls bring to the home economy liquid savings matched by liquid foreign exchange, providing a rare opportunity in developing countries for domestic investment of a non-inflationary sort.

The benefit of remittances is then in sustaining high levels of investment with a favorable balance-of-payments. Table III shows the rates of gross investment in Portugal, Spain, Greece and Turkey for 1948-1958 from the Economic Commission for Europe, and for as long a subsequent period as possible, matched against the foreign-exchange position in 1958 and for a recent date. Many factors other than remittances affect both series, of course, (so many in the case of Italy that it has been omitted from the table) and, as has been said, the investment can be used relatively unproductively. It may be significant that Greece had the highest proportion of dwellings in gross investment in all of Europe (6), and that many emigrants are interested in constructing houses in Athens. But even those who

(6) UNITED NATIONS, *Some Factors in Economic Growth in Europe during the 1950s*, op. cit., Chapter III, p. 31.

oppose emigration recognize its beneficial effects on the balance-of-payments (7), and while the contribution to savings is less widely understood, once mentioned it is virtually self-evident.

TABLE III
GROSS INVESTMENT AND FOREIGN EXCHANGE RESERVES
IN MEDITERRANEAN EUROPE (EX ITALY)

	Gross Investment		Foreign Exchange Reserves	
	1948-58 *	1959-62 **	End of 1958 ***	End of 1964 ***
	(as percent of GNP in current prices)		(in millions of dollars)	
Greece	16.5	18.1	153.3	170.6
Portugal	16.0	17.7	283.0	442.0
Spain	16.3	18.4	8.0	796.0
Turkey	15.0	15.5	46.5	29.8

Sources:

* UNITED NATIONS, *Some Factors in Economic Growth in Europe during the 1950s*, Geneva 1964, Chapter II, p. 17.

** For Greece, Portugal and Turkey, UNITED NATIONS, *Economic Survey of Europe*, 1963, Geneva, 1964. For Spain, figures were computed from data in OECD *Statistical Bulletin*, January 1965.

*** *International Financial Statistics* of the International Monetary Fund.

Decline in Consumption

Emigrants may contribute positively to savings through their work abroad. They may further make a negative contribution to savings by removing themselves from the economy and reducing domestic consumption. A possible negative offset to this source of potential saving is a concomitant decline in production. This question is addressed presently. But gross, in any event, and net, if the emigrants come from disguised or open unemployment, emigration leads to a decline in consumption, and possible savings.

(7) A. G. PAPANDREOU, *A Strategy for Greek Economic Development*, Athens, Center of Economic Research, 1962, p. 62, calls the favorable pattern of invisible receipts "the Deus ex machina" of the balance-of-payments.

Fei and Ranis make a great deal of this source of capital formation in their book on the labor-surplus economy — too much in the view of many observers. In their model, the movement of labor from the agricultural sector reduces consumption in agriculture without affecting output, and therefore increases the income of the factors which remain behind. This income is saved, and made available by agriculture to the industrial sector. In other words, the agricultural sector provides the departing workers with the subsistence they previously enjoyed as disguised unemployed, so that the workers can take their wages fund with them.

Two steps in this analysis seem unrealistic: first, that the increase in income per capita in the agricultural sector from a constant output with reduced inputs should be entirely saved, which assumes marginal propensity to save of 1.0 in a sector where the marginal propensity to consume food itself may be very high and even close to unity. Second, even if savings occur on a considerable scale, there is doubt that they would be made available to another sector, industry, given the rudimentary capital markets existing in most developing economies.

With emigration abroad, there is no need to worry about the wages fund of the departing workers, since that is a problem for the country of immigration (8). But it seems unlikely that the savings from forgone consumption will be large, or that they will be used outside the sector, unless emigration is accompanied by a dynamic effect of improved productivity. Agriculture can, of course, provide large savings which are used outside the sector: French agriculture in the period up to World War I was the source of much of the funds invested abroad through the banking system, and this despite a stagnant technology. But the probability of this occurring is low. On a static basis forgone consumption by emigrants is likely to be matched almost entirely by increased consumption by those left behind, assuming that output has not declined, leaving but a small residue for capital formation, and this by and large in the sector where the income per capita increased. The point is much less important than the remittances.

(8) It may of course be a real problem elsewhere. In Switzerland currently, and in Australia, Canada, and the United States in the late 19th century, immigration was accompanied by capital inflow to enable capital formation to take place. In Europe today, outside of Switzerland, immigrating workers are combined with domestic savings.

Losses: Forgone Production

The gain from reduced consumption by emigrants can be offset in whole or part if the emigrants are employed persons and their places are not quickly filled from the ranks of the unemployed. This loss is nil, however, if the emigrants were unemployed or if their departure reduces other unemployment. The unemployment can be open and recognized, or disguised. Open unemployment presents no analytical problem, though its dimensions may be open to debate because of poor data. Disguised unemployment is a highly controversial subject, in theory and in measurement.

There is hardly any issue in Turkey. Unemployment is relatively small, perhaps 150,000, but estimates of underemployment range as high as nine million out of an active population of 12,500,000 (9). It is true that 82.8 per cent of those who went to Germany had been gainfully employed in Turkey, as of September 1963, relatively early in the movement. But this initial wave of urban workers, 41 per cent from Istanbul, but only 17 per cent born there (10), had their places filled by new migrants from Anatolian villages to the urban bidonvilles.

In 1964 there were 150,000 workers, largely unemployed, inscribed to go to Germany (11).

Unemployment figures are unreliable in Greece. The employment exchanges registered 75,000 unemployed at the end of 1963, but private estimates put non-farm unemployment as high as 150,000 and for the total active population of 3,700,000, farm and non-farm alike, the estimates run to 500,000 (12). An official estimate for March 1961 was 239,000 total unemployed and 185,000 non-agricultural unemployed (13). These figures are all below earlier estimates of unemployment which run to 775,000 in 1951 and 635,000 in 1959 (14).

(9) NURI EREN, *Turkey Today - And Tomorrow*, New York, Praeger, 1963, p. 144.

(10) NERMIN ADADAN, *Bati Almanya'daki Türk İşçileri ve Sorunları*, Ankara, Başbakanlık Devlet Matbaası, 1964, cited by Richard Robinson in an unpublished paper, "High Level Manpower in Economic Development: Turkey".

(11) Conversation with Turkish Consul-General, Frankfurt a. M., July 1964.

(12) American Embassy, Athens, "Basic Facts and Figures on the Economy of Greece", 1964, p. 7.

(13) A. G. PAPANDREOU, *op. cit.*, p. 26.

(14) J. CUISNIER, *Problèmes du développement économique dans les pays méditerranéens*, Paris, Mouton and Company, 1963, p. 270.

But the real issue turns on disguised unemployment. Adam Pepelasis is responsible for the view that there has been no removable agricultural surplus of workers in Greece since 1955, and that there is currently a substantial labor shortage in the sector (15). A removable agricultural surplus is defined as that labor which can be removed for at least a complete year without any reduction in output. It is recognized that much of the existing labor may be unemployed for parts of the year, outside the planting and harvesting seasons. It is acknowledged further that the definition assumes no change in agricultural methods, and that a scarcity of labor in agriculture stimulates modernization. Pepelasis urges agricultural reorganization and innovation, although he suggests that land fragmentation means that mechanization cannot be carried far. But the emphasis on the shortage of agricultural labor, and fear of a shortage of industrial labor in future, leads him with Andreas Papandreou to call for a review of Greece's long-run emigration policy.

The seasonality of agriculture has long posed a serious problem, and one in which parts of Greece resemble mid-19th century France and early 19th century Britain with their "tramping artisans", especially construction workers who leave their mountain villages to look for work as carpenters or masons during the off-season (16). In a modern economy, the agricultural activities which are so limited seasonally are typically shut down altogether. Rural exodus ends up by eliminating certain parts of agriculture which cannot support population at the going level of living. To insist on retaining all peak activities in agriculture, as Pepelasis does, is to condemn some workers to sub-standard incomes, a purpose more easily provided for in planning than carried out.

The fact is that the Greek agriculture, notwithstanding a setback in cotton in 1964, has been booming.¹ In 1963 production increased by 11 per cent, despite the increased deficit of labor.

(15) See ADAM A. PEPELASIS and PAN A. YOTOPOULOS, *Surplus of Labor in Greek Agriculture*, 1953-1960, Athens, Center of Economic Research, 1962; ADAM A. PEPELASIS, *Labor Shortage in Greek Agriculture*, 1963-1973, Athens, Center of Economic Research, 1963; ADAM A. PEPELASIS, "Greece Set to Come to Grips with Riddle of Farm Productivity", *Journal of Commerce*, International Edition, August 3, 1964, p. 6A, and ADAM A. PEPELASIS, "Les Problèmes de la Main d'Oeuvre de la Grèce dans le Cadre du Marché Commun", in J. CUISENIER, *op. cit.*, pp. 311-333.

(16) See W. H. McNEILL, *Greece: American Aid in Action*, 1946-47, New York, Twentieth Century Fund, 1957, pp. 5-7; and E. J. HOBBSAWN, "The Tramping Artisan", *Economic History Review*, 2nd ser. vol. 3, No. 3, 1951, pp. 299-320.

Some areas may be deserted, and deserve to be on economic grounds. In others the dynamic stimulus of labor shortage and higher wages, still to be discussed, overwhelms any static effect of loss of output. Emigration can produce "Deserted Villages" and ghost towns, but Southern Italy, Greece, Portugal and Spain are all booming, in spite of, or possibly even because of emigration, and agricultural productivity is increasing along with industrialization.

Capital Exports

The view that emigration is a form of capital export which cannot be afforded by a poor country raises a series of analytical problems which are usually ignored. A major question is whether the labor is productive, which has just been discussed in another connection; a second is the issue as to whether the productivity accrues to the individual or somehow to the country at large. But even before these questions are addressed, there is doubt whether one should apply capital theory to human beings in developing countries.

If the emigrants were slaves, and raised for the purpose, it would be appropriate to calculate whether it was worthwhile for a poor country to raise slaves for export — a capital-intensive activity in a capital-poor country. The answer would doubtless be "no". But babies are born, and youth raised and educated, without regard to the economic return on the process. It is true that Gary Becker has produced a model of children as a consumption good, a durable consumption good to be sure, which gives off utility over a long time, and with heavy depreciation (17). But this model, used to explain the demographic counter-revolution which increased the birth rate in the United States (and France) after World War II, is appropriate only to a rich country. For the most part, procreation can be regarded as non-economic, and the increments to the labor force as exogenous to the production, consumption, and saving decision-making processes.

In this circumstance, labor may be capital but its costs are "sunk". The question whether to raise children for emigration is

(17) See GARY S. BECKER, "An Economic Analysis of Fertility", in *Demographic and Economic Change in Developed Countries*, Princeton, New Jersey, Princeton University Press, 1960.

not open. The young people exist, and we need to apply to them not "real-cost", but "opportunity-cost" analysis. What is the most effective use to make of existing labor, to employ it abroad, or leave it unemployed at home; or if there are job opportunities at home, to employ it at home with a small amount of capital, or abroad with more?

In fact, it can be and is argued that emigration is capital saving. If the worker remained in his native country, it would be necessary to invest in factories and housing for him, as well as schools and general social overhead. If he emigrates, the investment bill reduces to merely schools and the private capital he takes abroad with him (18).

In addition, there is the important question of income distribution. What difference does it make to the country as a whole whether a worker remains at home, or goes abroad: what he is paid goes to him, to dispose of as he likes. His product is not lost to the state because it was never contemplated that it would accrue to the state. He may contribute to the support of his family — possibly to a greater extent from abroad than if he remains home. The state may be said to have lost taxable capacity if he emigrates — a second-order effect — and this will equally be true of the community in which he lives, but this he is normally free to leave even if he does not emigrate.

There are other second-order effects than changes in taxable capacity: narrowing of the market for producers, changes in marginal products for other factors, the contribution which his savings may make to capital formation, etc. But the first-order effect cancels out: his production is lost, but so is his consumption. The notion that the country of origin loses an asset and the return on it through emigration is based on faulty analysis.

Dynamic Losses

The large possibility of dynamic loss comes from the departure of the best elements of the society in some sense: the skilled, the more productive, the more energetic, the young, the generation of

(18) See F. HARTOG, "Economic Policy in the Netherlands", *Economic Policy in Our Time*, Country Studies, Volume III, Rand McNally, Chicago, 1964, p. 136.

child-bearing age, the future entrepreneurs, scientists, doctors, engineers. The Greeks make the point frequently that the German employers and doctors seek the skilled, the intelligent, the healthy, the youthful and the politically innocent, leaving them with the unskilled and unintelligent, the sick, the aged and the Communists. They also fear the loss of population vitality, as the birth rate continues to decline with the emigration of young people, having in mind that population growth eases economic growth — when it does not stifle it — by providing a margin of expansion in which embodied technology can improve productivity at a faster rate, and growing demand can prevent stagnation.

There is surely something to this fear. Population loss below some optimum range hurts, and beyond a critical point of no return it may even be fatal to an economy. An expanding number of ghost towns can lead to a ghost economy. But Southern Italy, Portugal, Spain and Turkey seem to be a long distance from this optimum range, on the high side, and the Greek fears, though difficult to judge from a distance, have the appearance of being anticipatory so long as the economy grows at more than 5 per cent a year and the population is still growing positively.

Dynamic Gains - Balanced Growth

The question of emigration was first raised for Southern Italy in recent years by Mrs. Vera Lutz, who wrote an article in *Lloyds Bank Review* in which she suggested that bringing capital to the Mezzogiorno as contemplated by the Vanoni plan was not enough: it was necessary to take people out. The article caused a sensation in Italy. But the analytical basis for the view was not fully developed until her article in the December 1961 *Banca Nazionale del Lavoro Quarterly Review* in which she asserted that her case rested on balanced growth. Emigration raises income in the agricultural sector to a per capita level where income recipients devote substantial income to industrial products. This creates a market for industry and allows it to develop effectively. In buying industrial products, the agricultural sector has to furnish food, thus closing a "food gap" which would exist if surplus labor were taken off the farm and set to work locally in industry, rather than at a distance. It is not completely clear whether agricultural income per head is raised

merely by the reduction in agricultural labor — a change in the land/labor ratio, or additionally by investment, but it seems to be both (19).

This is an interesting idea, but like so much of the balanced growth discussion it ignores foreign trade. Industrial workers in the south could export their output to Northern Italy if not to foreign countries, and buy food abroad. Or, after emigration, Southern agriculture could sell its product abroad, and buy industrial products outside the region without necessarily creating a market for indigenous manufactures. Southern Italy is not so isolated that transport costs give it great protection. In addition there may be some conflict in agriculture between using the increased income per capita for investment in agriculture or for consumption, and if the latter, whether of food or of industrial goods. The extra income, it is clear, can only be used once, and for poor countries, as emphasized, it is likely to be eaten in great part rather than invested (as Fei and Ranis believe) or spent on industrial products (Mrs. Lutz). In short, Mrs. Lutz's idea is interesting but not convincing.

Training

One hoped-for dynamic gain is the training of industrial workers for the Mediterranean countries in Europe. It is hoped that most will return, and that they will bring back with them skills required for economic development, and also adjustment to industrial life. The process of conditioning men for factory work has been analyzed in terms of stages of recruitment, commitment, advancement and maintenance, by which is meant all the steps which go to make a rural hand into a factory worker (20).

This breaks down into two questions. Will they come back, and if so will they have learned anything? On the first issue, it is felt in many European quarters that emigration to Europe is less likely to be permanent than emigration overseas. Possibly. But emigration overseas before World War I from Southern Europe was

(19) See VERA LUTZ, "Some Structural Aspects of the Southern Problem: the Complementarity of 'Emigration' and Industrialization", Banca Nazionale del Lavoro *Quarterly Review*, No. 39 (December 1961), pp. 390-391.

(20) CLARK KERR, FREDERICK HARRISON, JOHN T. DUNLOP, CHARLES A. MYERS, *Industrialism and Industrial Man*, Cambridge, Massachusetts, Harvard University Press, 1960.

not permanent, despite the fact that it is remembered this way. And many of those who now go abroad for five years to acquire a certain capital sum will find themselves settling abroad *ex post*, despite their *ex ante* intentions. It is further clear that those who do return do not always return to the same region or sector from which they departed. It is estimated that only 10 to 15 per cent of the emigrants from Greek rural areas will return to their villages (21), and Italian data on internal and external migration indicate that from 1959 to 1961 the Mezzogiorno had an excess of emigrants over immigrants vis-a-vis foreign countries, whereas the North and Center had an excess of inward migration (22). Thus Switzerland and Germany served, in a small way, to assist the migration from South to North Italy.

Italy takes the view that it is up to the individual whether he returns or not. Greece has a program of attempting to encourage return, especially of those of its citizens who went abroad as students and settled down (23). Turkey limits the validity of its emigrants' passports to two years, hoping to force return. It has been suggested that the Spanish are somewhat fearful of the return of Spanish workers who have been long abroad, and acquired a taste for political freedom. But all countries officially desire the ultimate return of their people.

If they return, will they have acquired any skills useful for economic development? In the case of the Greek students just mentioned, most of them will have, but some classes of these, especially the doctors and scientists, are most reluctant to return to work with inadequate hospitals, laboratories, technical assistants or nurses. There are said, for example, to be 2,500 to 3,000 Turkish doctors abroad, despite the fact that the medical profession is held as the highest profession (24).

For the mass of workers who have served in European factories and on European farms, there is a substantial question. With emi-

(21) See A. PEPELASIS, "Les Problèmes de la Main d'Oeuvre...", p. 322.

(22) Communicated privately by the Bank of Italy on the basis of figures of the Relazione del Comitato dei Ministri per il Mezzogiorno. For a similar discussion of the relations between internal and external migration in Greece, see B. Kayser, *Géographie humaine de la Grèce*, Paris, Presses universitaires de France, 1964, Chapter IV and V.

(23) See GEORGE C. HANIOTIS, "An Exercise in Voluntary Repatriation in Greece", *The OECDE Observer*, No. 11, (August 1964), pp. 12-15.

(24) R. ROBINSON, *op. cit.*, pp. 56, 64.

gration to the United States prior to World War I, there was a difference in the experience of the returning Norwegian farmers and Italian laborers. The farmers had made a success in the United States, and came back impatient with Norwegian methods and anxious to try new techniques. The *Americani* returning to Italy, on the other hand, were not among the more successful of the emigrants and lived on their means — without investing in business enterprises — and were reluctant to work for wages. Those who bought land had learned nothing of agricultural technique in the United States, where they had been laborers for the most part in construction. They dressed differently, but within were basically unchanged: their way of life and their social ambitions were still determined by the social conditions of the home country, rather than the United States (25).

I know no way of ascertaining what the outcome will be in Europe, but surely the Greek Government is right in seeing what can be done first to increase the training of its citizens in Europe, and second to encourage their return. A third step, apparently also under way in Greece, is to ease the problems of readjustment to Greek life, especially for trained personnel who have been induced to change their intention to remain abroad. This will be difficult, but it is surely worth attempting.

The Stimulus from Higher Wages

But the main dynamic gain from emigration — albeit a problematic gain — is the stimulus to investment and technological change from raising the marginal product of labor, and shifting from a disequilibrium system in which labor is paid its average product to one in which marginal product pricing takes place. For the details of the analysis in static terms, the reader is referred to the work by Fei and Ranis, either in the book already cited, or in the preliminary article form (26). But their analysis focusing on industry neglects

(25) See INGRID SEMMINGSEN, "Emigration and the Image of America in Europe", in H. S. COMMAGER, ed., *Immigration and American History*, Minneapolis, University of Minnesota Press, 1961, pp. 42-45, 52.

(26) See G. RANIS and JOHN C. H. FEI, "A Theory of Economic Development", *American Economic Review*, Vol. LI, No. 4 (September 1961), pp. 533-565.

the dynamic impetus of rising wages on investment and technological change in agriculture, which in the case of emigration from a country, rather than a sector, may apply throughout the economy.

Historical examples may be helpful. In the first half of the 19th century, the large-scale movement out of English agriculture gave rise to the era of High Farming — new techniques of drainage, deep plowing, mechanical cultivation and harvesting. In France since World War II, the rural exodus has produced an enormous increase in investment, reorganization of land use, big increases in productivity, and in fact agricultural surpluses as productivity has risen faster than the outward migration. Some farms have been abandoned in the Southwest but many of them have been taken over by returning settlers from Tunis and Algiers and farmed on a different scale with new techniques.

This sort of stimulus is felt in the Mediterranean area as well. McNeil tells of the village of Lofiscos in Greece which found it impossible to hire outside labor and shifted to the development of a more intensive farming, with wheat, well irrigation and machinery (27). Pintado sees the beginning of modernization of agriculture in Greece, Southern Italy, Yugoslavia as a response to the tightening of labor availability. It is also starting slowly in Portugal which is the central object of his study (28).

Rising wages may require changes in institutional organization which are difficult of accomplishment: the *remembrement* or consolidation of small land holdings into large units, as in France, or the repeal of legislation forbidding free movement of workers, as in Italy. But the removal of excess supplies of labor and raising the worker's wage to his marginal product requires the farmer to economize, i.e. to calculate the relative returns to labor, capital and land. When excess supplies of labor exist, the labor is an overhead with zero marginal cost and is always used wherever it can physically be substituted for other factors.

As in agriculture, so in services and small-scale industry. The opportunities for increasing efficiency in services are not great perhaps, but there is much room for productive efficiency in the artisan and handicraft fields. In modern industry, the problem may be

(27) McNEILL, *op. cit.*, pp. 94-95.

(28) V. XAVIER PINTADO, *Structure and Growth of the Portuguese Economy*, no place stated (Geneva?), European Free Trade Area, July 1964, pp. 73, 79, 95.

otherwise; too lavish a use of capital, too high wages, and a higher supply price for labor in the economy outside modern industry may do nothing to help here, beyond reducing the isolation of the sector.

The Mediterranean reaction to this may be: why not bring the capital to the labor, rather than the labor to the capital? It is possible to alter the marginal physical products to make them accord more fully with factor prices either by subtracting labor, or adding capital. A system of equilibrium factor pricing can be achieved this way as well, and should equally lead to economic development.

Perhaps. But this analysis assumes a two-factor world when in reality there are many more to be considered, land and entrepreneurship at the very least, accessibility to markets, etc. If capital can be substituted for these as well as for labor, it might be possible to achieve the same result in this way, but the likelihood is not great. In Southern Italy ten years of bringing capital to the labor failed to produce striking results, whereas the large-scale movement of labor out of the area has finally stimulated effective growth. And Greece, Portugal and Spain are also growing and transforming, with emigration, while Turkey still lies stagnant under the weight of massive surpluses of labor.

Emigration has social and political costs. It may leave what Rossi-Doria has called "concentration camps" of old people, women and children — villages without men. At the other end are men huddled into barracks like the British farm laborers in the industrial slums of the 19th century, exposed to sordid life of industrial cities (29). Greece worries particularly about the effect of the depopulation of her border with Albania, Yugoslavia and Bulgaria on

(29) See for example, the article by Kyriakides, entitled "Exaggerations?" in *Tovima* (Athens) of February 12, 1965 (kindly communicated by the American Embassy, Athens). "Seventy out of a hundred Germans are willing to work one hour a day longer provided all the foreign 'guests' will return home... But why should the Germans be willing to work longer? The answer is given by a French reporter. Unlawful prostitution, suspicious bars, alcoholism, narcotics, and misunderstanding. Besides these, the girls, even second class, are very expensive and so the 'guests' in order to be able to make their monthly remittances to their old parents, fiancées or even wives, are forced to steal and smuggle. It may also be added that besides the 'good' workers, there have arrived in Germany many ex-convicts, smugglers, professional thieves, etc. who took no time to find partners and create gangs. Result: to terrorize the streets and whole neighborhoods and create daily problems for the German police..." (translation by M. Chacholiades). For the contrary view expressed by the Kriminalamt in Wiesbaden — that the crime rate is no higher among the foreign workers in Germany than that of the native population — see "Per Moneta", *Der Spiegel*, No. 41-64, October 7, 1964, p. 56.

her national defence. The heavy migration from Macedonia has now been prohibited. The non-economic costs are far from insignificant, even though they cannot be taken into the economic calculus.

Emigration may not stimulate. If the conditions are not ripe, the economy will merely decline. This possibility exists and must be taken into account, even though Greek leadership seems to be unduly afraid of it. The positive response of reorganization of the home economy, training for emigrants abroad and programs of repatriation and readjustment to an expanding economy (30) are far superior to the steps of forbidding movement from certain areas, limiting recruitment by foreign organizations, requiring cash holdings before emigration is allowed.

Conclusion

When conditions are right, as they seem to have been from 1959 to 1964, large-scale migration can contribute to the best of all economic worlds: rapid growth in the country of immigration, based on unlimited supplies of labor, and rapid growth in the country of origin, where the elimination of excess labor contributes to more effective resource allocation. The growth models are different, but each in its way is effective. In the receiving country growth is helped by holding wages down, and profits and investment up. In the country of emigration, growth is helped by raising wages and stimulating more effective resource allocation and technological change.

It is not clear how far this fructifying process can go. Economically there seems to be some evidence that German capacity to absorb immigrants at the same rate is constrained by the skill mix: Germany has open places for 950,000 workers in all, but for only 45,000 foreign workers. Politically, such a country as Switzerland begins after a time to fear that its national identity and social, political and religious internal balances are threatened by immigration, and calls a halt to the influx. Moreover, it takes a risk as it comes to depend on foreign labor and short-term capital that the

(30) See XENOPHON 'ZOLOTAS, *Monetary Equilibrium and Economic Development*, Princeton, New Jersey, Princeton University Press, 1965, Chapter VIII.

use of these resources would be halted abruptly, rather than with the same gradualness as the inflow. Such an exodus would present grave difficulties of adjustment internally as well as externally.

Parallel to these limits in Northern Europe, there are limits in the South, that too much of the skilled labor and energy of the economy will be drained off, and politically that the loss of numbers and youth may reduce the society and polity below effective scale. And the risk exists that all the emigrants will return at once to upset the economic, social and political balance.

Within these limits, and discounting these risks, however, emigration can be, and has been a positive force for growth in the South. Lewis, Nurkse, Lutz and Fei and Ranis have the better of the argument over Myrdal and Gini.

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