

# **Migration and economic development: Theoretical and empirical perspectives on the mobility transition**

**Jens Peter Lundø Hau**

M.Sc. Thesis: Development and International Relations

Aalborg University

Supervisor: Margrethe Holm Andersen

Student ID: 20166676

Submitted: April 19<sup>th</sup> 2021

Characters: 163.557



**AALBORG UNIVERSITY**  
DENMARK

## Abstract

Determining what the relationship is between economic development and migration incentives has become increasingly important as political attitudes in receiving countries have become increasingly antagonistic towards immigrants. Development policies in advanced countries are therefore increasingly directed towards managing migration flows while simultaneously promoting economic development. However, the current academic literature on the relationship between migration incentives and economic development suggests that for many of the countries where these policies are directed, more development will lead to more emigration. How successful these development policies are likely to be therefore warrants a degree of skepticism. This thesis aims to study in a historical perspective how the relationship between economic development and migration incentives have been impacted by the process of economic development in order to assess the feasibility of these dual goals. Following a critical review of the previous literature, it is argued that less attention has been paid to the role of how the political economy affects the process of economic development and therefore migration incentives. To address this issue, a framework to analyze the relationship between the political economy and migration incentives is proposed through the work of Karl Polanyi and Dani Rodrik. The framework provides an analytical background against which the measures of development used in previous studies can be interpreted by focusing on the political economy in which they were measured. The study finds that features of the political economy such as the regulation of trade, capital flows and exchange rate regimes affect the conditions under which economic development takes place and that migration incentives have responded to how these are regulated. The thesis concludes, that while some increase in emigration is to be expected as countries develop, if development policies are directed towards addressing structural features of the political economy concomitantly, they have the potential to affect the number of emigrants and the volatility of emigration flows during the process of development. The thesis concludes by offering a proposal for where structural reform of the political economy has the potential to ameliorate the incentives to emigrate during the process of development through the case of the CFA franc currency union in Africa.

**Key words:** Political economy, emigration, economic development, international political economy, economic history

## Table of Contents

Abstract .....	1
List of abbreviations.....	3
List of figures.....	4
Chapter 1 – Introduction and methodology.....	5
1.1. Introduction .....	5
1.2. Methodology .....	8
Chapter 2 - Literature review .....	10
2.1. Theoretical foundations of the mobility transition.....	10
2.2. Empirical evidence on the relationship between migration and development .....	12
Chapter 3 – Theory and analytical framework .....	17
3.1 Theoretical Background.....	17
3.2. Analytical framework .....	19
3.3. IPE and migration incentives.....	22
3.3.1. Domestic economic effects of international trade .....	22
3.3.2. Domestic economic effects of international payments and capital market policy.....	24
3.3.3. Economic effects of exchange rate regimes.....	30
3.4. A political economy of the mobility transition .....	31
Chapter 4 – Analysis .....	32
4.1. The political economy of nineteenth century .....	35
4.1.1. The functioning of the Gold Standard and its relationship to migration .....	36
4.1.2. Welfare policies and emigration: The exception to the rule in Bismarck’s Germany. ....	38
4.1.3 The relationship between the political economy and the economic fundamentals. ....	41
4.1.4 The political economy of the mobility transition in the pre-1914 period.....	45
4.2 Post-1914 migration and the evolving structure of the international political economy.....	45
Chapter 5 – Implications for development policy.....	51
Chapter 6 – Conclusion.....	54
Bibliography .....	55

## List of abbreviations

BCEAO: The Central Bank of West African States

BEAC: Bank of Central African States

BoP: Balance of Payments

CEMAC: Central African Economic and Monetary Community

CFA: Financial Community of Africa

CML: Capital Market Liberalization

EFSD: European Fund for Sustainable Development

EMDC: Emerging Markets Developing Economies

EU: European Union

EUTFA: European Union Trust Fund for Africa

GDP: Gross Domestic Product

GNI: Gross National Income

HDI: Human Development Index

IMF: International Monetary Fund

IPE: International Political Economy

LDC: Least Developed Economies

NAFTA: North American Free Trade Agreement

ODA: Official Development Assistance

PPP: Purchasing Power Parity

SOE: State-owned enterprises

SSA: Sub-Saharan Africa

US: United States

WAEMU: The West African Economic and Monetary Union

WWI: World War I

WWII: World War II

## List of figures

Figure 1: The liquidity model – Hierarchy of money	27
Figure 2: Gross emigration from Europe 1850-1913	33
Figure 3: GDP per capita for SSA and Latin America and the Caribbean.	49

## Chapter 1 – Introduction and methodology

What is the relationship between migration and economic development? This question has long been the subject of academic debate, but the complexity of economic development and the many factors that influence migration decisions make the issue difficult to study and the answers uncertain. The question has nevertheless only risen in importance over the last decades as migration has become one of the more salient issue in developed countries.

### 1.1. Introduction

The relatively dramatic increase in migrant arrivals to the EU during the period from 2014-2016, brought migration into being one of the central issues on the European policy agenda. While much of the surge in the number of migrants originated from the MENA region and Afghanistan and consisted mostly of refugees fleeing conflicts like the Syrian civil war, the crisis nevertheless also drew attention to migrants from Africa wanting to escape poverty; the so-called economic migrants (European Commission 2016: 9). While the current number of emigrants from Africa is relatively low, part of the reason for the heightened concern is due to the projected increase in the population of Africa. The current population was estimated to be 1.256 billion in 2017 and has been estimated to increase to 1.704 billion by 2030, and again to 2.528 billion by 2050, with much of the growth expected to take place in Sub-Saharan Africa (UN Population Division 2017: 1). With a population increase of this magnitude, it has motivated concerns from both academic and political circles, as with the economist Timothy Hatton saying this could result in a “*potential flood of African migrants*” (Hatton 2003: 465) and French President Emmanuel Macron characterizing this demographic transition as “*one of the main challenges facing Africa*” (Vox 2017).

To address this issue, a central element of the EU’s response has been based around economic development in the countries of origin in order to address the so-called root causes of migration; a broad umbrella term for a lack of economic development, lack of employment opportunities and a lack of capacities for managing migration and borders. As part of addressing the aspect of economic development, the EU has increased its Official Development Assistance (ODA) as well as redirecting an increasing share of these funds towards countries that produce and host migrants and refugees (Arroyo 2019: 25). While overall global ODA has generally been decreasing in real terms, the EU countries have on average increased its ODA from around 0,4% of GNI in 2005 to around 0.5% of GNI in 2017 in line with the UN Sustainable Development Goal 17 of reaching a GNI-to-aid ratio of 0.7% by 2030 (ibid.: 20). Moreover, a number of

emergency trust funds have also been established to make ODA funds more agile<sup>1</sup> with the aim of making funds more deployable to respond to migrant flows and refugee crises.

A notable example is the EU Emergency Trust Fund for Africa (EUTFA). While this fund was created to implement a rapid response to the 2014-2016 refugee crisis, it also contains an explicit focus on addressing the root causes of migration (European Commission 2015b: 3). Apart from this direct assistance, the EU is also seeking to mobilize private investment through so-called blended finance. This is the purpose of the European External Investment Plan under which the European Fund for Sustainable Development (EFSD) has been established and offers a loan guarantee to minimize risk for private investors. The European Commission estimates that the fund's resources of 3.35 billion euro can encourage additional investments of 44 billion euro (Lundsgaarde 2017: 14). An explicit purpose of the establishment of the EFSD has also been to address the root causes of migration by way of economic development (ibid.: 13). Central to all these initiatives is the assumption that economic development in countries of origin diminishes the incentives to migrate. This idea has its origins in neoclassical economic theories which hypothesize that migration is motivated by income differentials and thus as incomes converge, the incentive to migrate diminishes with this convergence. As standards of living converge, the cost-benefit evaluation would thus encourage more people not to make the decision to migrate. According to this line of thinking, an instrumentalization of aid to combat the root causes of migration would therefore have the double benefit of reducing immigration to Europe as well as promoting economic development in the countries of origin.

However, rather than mitigating emigration pressures, much of the academic literature suggests that economic development will at least in the initial stages of development lead to more emigration. Only after reaching a certain level of development, will continued economic development lead to a decrease in emigration as predicted by the neoclassical models. The relationship between economic development and emigration rates therefore more resembles an inverted U-shaped curve, rather than a decreasing linear curve as is implied by neoclassical theories. One of the reasons proposed for this relationship between migration and development is that as people achieve higher levels of income, they are able to better finance the costly decision to migrate to a foreign country.

In broad terms, this can be thought of as low-income countries having low emigration rates, middle-income countries having high emigration rates, and high-income countries having low emigration rates again. This relationship has been termed the mobility transition which was

---

<sup>1</sup> Critics claim this redirects funds from development to border control, while proponents claim this allows for a more efficient use of funds.

theorized by Wilbur Zelinsky (1971) and corroborated empirically by Hatton and Williamson (1998) for nineteenth century European migration, and as a general global trend by de Haas (2010) and Clemens (2014) among others. The majority of researchers believe that most of the countries in SSA are below this threshold (Arroyo 2019: 5). According to these findings, the development initiatives in Africa by the EU are therefore likely to be ill-founded from the perspective of curbing migration. An apparent paradox therefore emerges in how to approach the dual goals of economic development and migration management, and if it is even feasible to achieve both at the same time.

Many migration researchers have expressed skepticism towards this dual goal (Massey 1988; de Haas 2007; Hatton and Williamson 2003; Clemens 2017), but as Hatton and Williamson have also pointed out, besides the fact that a mobility transition is likely to take place as poor countries develop, little is known beyond that (Hatton and Williamson 2003: 466). Answers to questions like what the intensity of the pressure to emigrate is, how much of the pressure will be realized as actual emigration, and what the duration of the transition is going to be are all uncertain. One reason is, of course, that past experience is not necessarily representative of how the future will unfold, and thus assessing how the economic, social, cultural and technological developments will affect migration in the future, is hard to make predictions about. Climate change and how that issue is tackled going forward, complicates even further the extent to which predictions can be made about the development of EMDCs' and their emigration rates. But even based on the knowledge that is available, the question of how migration relates to economic development is still largely an open one. That this is the case is evident from the data which support the mobility transition as it displays considerable variation. Both historically and among individual countries migration patterns have varied widely and the extent to which this is fully explained is an ongoing academic debate (Clemens 2014: 174). Some factors are known to contribute to the variations observed in the data such as climate, whether the country is land-locked, proximity to developed countries, and the size of the country of origin. While the mobility transition is known to emerge from the process of economic development, the question of what role the broader development policy environment has in shaping the mobility transition has been given less attention. This is the central issue that this thesis will investigate, and more specifically, how the structure of the international economy interacts with domestic economic policy. From this vantage point, the research question that will guide this thesis will therefore be:

**Why has the mobility transition displayed such variety during the process of economic development?**

This question will be investigated by analyzing how the current literature has employed the data supporting the theory of the mobility transition and more specifically, how the concept of economic development has been conceived of analytically in relation to migration and the mobility transition. How to conceive of and study economic development is an ongoing debate in the social sciences, and different approaches yield different results. This methodological challenge therefore becomes relevant when studying the mobility transition. It becomes especially relevant when comparing mobility transitions over time and between regions, as it raises the question of to what degree the process of economic development can be assumed to be the same process. How strong that assumption is differs depending on the methodology employed and tends to be stronger in quantitative approaches and weaker in qualitative approaches. The purpose of this thesis is therefore to analyze how processes of economic development may be different and what bearing these differences may have on emigration rates during the mobility transition.

## 1.2. Methodology

Why a mobility transition occurs and why it displays such different characteristics over time and among countries is intimately connected to the multidimensional processes of modernization and industrialization, and the complicated relationships between economic development, geography, factor endowment, population development, rural-urban migration, and the structure of the international economy. To give a single answer is therefore probably elusive, and a single methodology is also doubtful to be able to provide an exhaustive explanation. But to explore more specifically how the mobility transition is affected by economic development policy, this thesis will undertake the analysis from the perspective of International Political Economy (IPE). This field is relatively new, resulting in it being somewhat heterogenous in its focus and approach. The field originated from International Relations theory, but rather than focusing on the relations among states from the point of view of security policy, the domain of IPE focuses on the economic relations among states. To characterize these relationships, the field draws on methodologies ranging from history, economics and political science. While such an interdisciplinary approach engenders a heterogenous focus, Susan Strange has offered the following definition of IPE and its domain: “*it concerns the social, political and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein.*” (Strange 1994: 18). Talani (2015) has explored some of the previous work done on international migration through the lens of IPE and while there is some discussion of the effects of globalization and a discussion of what globalization actually means, the work tends to focus mainly on IPE in the context of the regulation of immigration barriers.

In this thesis, the approach will be centered around more traditional areas of IPE, namely the regulation of trade, capital flows and capital markets, and exchange-rate regimes. The regulation of the balance of payments (BoP) and exchange rate regimes affects the conditions for economic development by how it affects production and financial relationships and can therefore affect emigration incentives differently according to how these are regulated. It will be argued that the regulation of these areas of international policy interacts with and changes the socioeconomic structures within states and that this affects the features of the mobility transition. This will be argued by tracing the evolution of the structure of the international political economy from the pre-1914 European mass migration until the present, and through comparing differences among countries in how this political economy affected the relationship between economic development and emigration rates both diachronically and synchronically. Providing an analytical lens for the relationship between migration patterns and the conditions under which development takes place, that is, how trade, capital flows and exchange rate regimes are regulated, it opens up for a range of economic development policies which could address the volatility of emigration rates as well as the volume of migrants, that the EU seeks to address. To explore these issues, the rest of the thesis will be structured as follows:

Chapter 2 will give a brief literature review of the current theoretical explanations given for the mobility transition as well as the empirical work conducted to investigate it. The chapter will identify two issues within the literature. First, the theoretical conception of the mobility transition is not a uniform theoretical concept, and these theoretical differences may impact how the empirical data is interpreted. Second, much of the empirical work has tended to use a uniform measure of economic development, which has some deficiencies in capturing how development relates to migration. In Chapter 3, will attempt to address these two problems by presenting an analytical framework based around IPE. The framework will focus on how the structure of the international political economy interacts with domestic economic policy and therefore affects the conditions under which development takes place. It will be argued that by viewing economic development through such a framework, it will allow for a more complete theoretical conception of the mobility transition and help explain why the amplitude and duration of the mobility transition is subject to such variations. By having a more complete theoretical conception of the mobility transition, the framework will then be able to provide an interpretive background against which the quantitative measures of development can be evaluated and through this, analyze the differences observed in migration patterns. Chapter 4 will then use this framework to analyze the relationship between the structure of the international political economy and migration patterns during various periods of development. Overall, global migration rates have followed what can be described as a U-shaped pattern,

starting with the European mass migrations of the 19<sup>th</sup> century, collapsing with the onset of WWI, to then gradually starting to rise again after WWII and accelerating more after the 1980s. The analysis will therefore start with an analysis of the European mass migration and the prevailing political economy at the time. Hatton and Williamson (1998) have undertaken a comprehensive study of this period, and the analysis will therefore discuss their results in some detail in relation to the framework proposed in Chapter 3. Having made these analytical points for the pre-1914 migration, these will then be extended to how migration have unfolded since WWII until the present and argue that the structural changes that took place in the international political economy after the suspension of the Bretton Woods agreement with the dollar's peg to gold, shares some of the same characteristics of the pre-1914 political economy, and that this change has been reflected in global migration patterns as well as the amplitude of the mobility transition. Chapter 5 will discuss some policy implications of this analysis and because of the impact of the political economy on shaping the amplitude of the mobility transition, there is policy scope for addressing emigration and economic development at the same time. A case where the political economy is likely to affect emigrations will be provided through the CFA franc currency union in Africa. Chapter 6 will conclude.

## Chapter 2 - Literature review

This chapter will describe the theoretical foundations the mobility transition rests on and also provide a brief overview of the empirical evidence on the link between migration and development. The review will draw attention to two issues in the literature which will be investigated further in the analysis. First, is the issue of how the relationship between migration and development has been conceptualized theoretically and second, how this conceptual difference can affect how the empirical evidence is interpreted.

### 2.1. Theoretical foundations of the mobility transition

The theory emerged in the 1970s as part of modernization theory and from a beginning recognition that the nineteenth century migration patterns did not conform to the predictions made by the neoclassical models. A number of researchers therefore proposed a theory of emigration which followed an inverted U-shaped pattern in relation to economic development instead of linear one. This relationship was termed the “mobility transition” by Zelinsky (1971), “migration curve” by Akerman (1976), a “migration hump” by Martin and Taylor (1996) and “emigration lifecycle” by Hatton and Williams (1994). These theories have conceptualized the transition from various disciplinary approaches. Wilbur Zelinsky's study of the transition was

conceived from a sociological point of view and within a theory of how human migration patterns would be affected by modernization broadly understood. The theory was conceptualized as a long-term transition in a “*highly idealized, flexible scheme*” and was thus formulated more abstractly (Zelinsky 1971: 229). While providing a general account, such an approach can render an analysis harder to operationalize. Approaching the issue from economics, Hatton and Williamson’s concept of emigration life-cycle was self-described as “*economic and unashamedly quantitative*” (Hatton and Williamson 1998: 5). Their approach relied on econometric modeling and the use of proxies for a range social phenomena. Such an approach enables a more parsimonious analysis but at the same time relies on reducing complex social phenomena to fit into mathematical models which may cause analytical problems if they are too reductive.

While Hatton and Williamson’s disciplinary approach differ from Zelinsky’s, both approaches’ view of the mobility transition are concerned with the long-term effects of economic development on migration patterns. On the other hand, Martin and Taylor’s (1996) theory of a “migration hump” was conceived in relation to changes in migration patterns as a response to a specific policy and thus more concerned with the impact on migration in the short-term. In their study, they considered the effects of trade and investment liberalization of the North American Free Trade Agreement (NAFTA) on migration between the US and Mexico. They concluded that there were good reasons to believe that as the economies adjusted to the new patterns of economic activity, it would create worker dislocation which would translate into increased migration initially, but as wages converged, migration rates should fall (Martin and Taylor 1996: 57-58).

The two conceptions of increased migration in response to long-term development and in response to the economic effects of specific polices are closely related, but nevertheless points to two different processes. As economic development is a multidimensional process facilitated by a range of polices, one can imagine a series of polices like, trade liberalization, industrial policy, monetary policy etc. each having a different effect on migration. From this it follows that the effect of economic development on migration in the long-term may be different depending on what specific development policies were implemented and under what conditions the process of development took place. A theoretical gap therefore exists in how to conceptualize the relationship between migration and development in the short-term and in the long-term and what bearing this has on the nature of the mobility transition. The role of development policy and the conditions under which these policies are implemented are usually not the main focus in the empirical work that has been conducted on the mobility transition. These studies are usually centered around econometric exercises using proxies for development outcomes and the policy environment in which these were measured are of less concern. However, as will be

discussed further below, the degree to which these proxies can be compared is not straight forward. The next section will therefore provide a brief overview of how the literature has approached the subject empirically as well as some of the questions that remain unanswered.

## 2.2. Empirical evidence on the relationship between migration and development

The empirical studies on the mobility transition have been conducted either at the macro-level, where the focus is on broad-based measures of development in relation to migration rates, or at the micro-level, which takes the individual or house-hold as the unit of analysis and looks at the relationship between their wealth and the propensity to migrate. Of these two types, the macro-studies are the most common (Clemens 2014: 163). For investigating the effects of development policy more broadly, it is also this level of analysis which is the most useful. This section will therefore also be limited to a discussion of these. The type of observational study which the macro-level studies have used, has mainly been either cross-sectional studies or time-series studies, where the former mostly find a positive or inverted U-shaped relationship between migration and development while the latter produce more mixed results. What the cause is of this discrepancy between the two types of observational studies has not been firmly established.

Clemens (2014: 163-165) provides a brief review of the results of these cross-sectional studies in which he also includes studies which use pooled panel observational studies. The majority of these studies uses GDP per capita as the proxy of development. Examples of these are Bertoli and Moraga (2012) who study immigration to Spain where they find a positive relationship between GDP per capita at the country of origin and immigration to Spain when excluding countries with a higher GDP per capita than Spain from the sample (ibid: 32). Another is de Haas (2010), in which a squared income term is included, where he finds an inverted U-shaped relationship between GDP per capita and emigration rates. However, GDP per capita as a proxy for economic development has several drawbacks in the context of studying migration. It is a simplification which makes the analysis more manageable in terms of comparing migration rates and income across time and space but risks missing core features of the development process and how it might relate to migration. GDP per capita, as a widely used measure for economic development, does not study the multifaceted and complex phenomena of development and modernization per se, but rather a “*growth of some index of output*” in relation to population size (Krugman 1995: 719). What causes this growth in output is also to a large extent uncertain. This uncertainty appears as a formal constant in the growth accounting models by the term of the Solow Residual, but also goes by the name “*the measure of our ignorance*”, as it is in many respects unknown what this rise increase in development can be attributed to. In the case of the US, as much as two thirds of the rise in per capita in income is due to this residual, according to Krugman. (Ibid.: 721). This is not to say that this is not a useful measure in many instances but

in terms of analyzing what causes migration, the proxy of GDP per capita does not capture other structural features that might affect migration incentives. An example of this could be the labor displacement caused by trade liberalization such as the one Martin and Taylor pointed to where the policy itself may have raised GDP by some amount, but nevertheless created higher emigration rates than if the policy had not been implemented. Numerous such structural features can affect migration patterns, and these constitute the core of the theoretical gap discussed earlier. What these structural features may consist of will be discussed at more length in the next chapter.

A few studies have also used other measures to proxy for development which do not rely solely on GDP per capita. The previously mentioned study by de Haas (2010) also used the Human Development Index (HDI) on the same migration data and found that emigration accelerated even more in relation to this measure than when measured just in relation to GDP per capita (de Haas 2010: 32). The HDI measure was constructed by using three indexes; GDP per capita for living-standard, life-expectancy at birth and an education index (Hastings 2009: 3). Research do seem to suggest that higher education levels are associated with a higher propensity to emigrate, as it increases the aspirations of migrants (Dao 2018: 58). If there is a mismatch between employment opportunities and the education level of the population of the sending-country, this could perhaps account for the steeper rise in emigration rates that de Haas finds in his results based on the HDI. An outlier in the cross-section studies is found in a study done by Dustmann and Okatenko (2014). Instead of using bilateral migration stocks or migration flows, the study was based on the World Gallup Polls in 2006-2007 and asked how likely the respondents were to relocate from their current city or area within the next 12 months (Ibid: 55). Respondents answering “very likely” was assumed to give a general good indication of the intention to migrate. Importantly, however, the question didn’t indicate the degree of the permanency of the move or whether it be international. The study concerned the regions of Africa, Latin America and Asia (but excluded developed countries like Taiwan and South Korea). Their results for all regions combined showed that migration intentions in relation to income proxied by GDP per capita confirmed the inverted U-shaped relationship as well. This suggests at least some level of comparability with the other studies, despite using migration intentions instead of actual migration. On a regional level, it was more pronounced for Asia and Africa, but a little negative for Latin America, although at a statistically insignificant level (ibid.:57). This can be interpreted as showing the importance of the credit constraint in making the emigration decision as there is some difference in GDP per capita between Latin America and the other two regions making the constraint not as binding anymore. However, the authors also proxied development using the Gallup polls by asking respondents about their satisfaction with local

amenities and how this perception affected migration intentions. Here they found that: “*the various measures of contentment with local amenities – specifically, satisfaction with personal standard of living, local public services, and security – all of which have a strong and significantly negative impact on migration intentions for all three regions.*” (ibid.:58). Proxying development with perceptions of satisfaction with local amenities thus had a strong negative impact on the intention to migrate. The study is interesting in pointing both to the importance of the credit constraint producing the inverted U-shaped relationship between migration and development, but also on how the structural features of development may impact migration patterns. Interestingly, the effect on the likelihood of emigration from the satisfaction of local amenities was far larger for Latin America than the other two regions indicating that a more complex relationship exists between direct and indirect incomes for emigration incentives rather than a single measure for income would indicate.

That these structural features of development play a role in migration incentives may therefore perhaps be a factor in why the results of the time-series studies are more ambiguous. Clemens (2014) also provides a brief summary of the results of these studies where an example of a study finding a negative relationship is done by Mayda (2010) using GDP per capita in origin countries and their migration rates to OECD countries over the period 1980-1995. Faini and Venturini (1993) who studied the relationship between GDP per capita and emigration rates from Southern Europe from the period 1981-1989 found an inverted U-shaped relationship. In line with Martin and Taylor’s “migration hump”, they suggest this may be due to the structural changes with regards to trade, agricultural policy etc. occurring in the EU at the time (ibid.: 442). An example of a study not using GDP, is the already mentioned study of the pre-1914 European mass migrations by Hatton and Williamson (1998) where they find an inverted U-shaped relationship between emigration, proxied by US immigration rates, and development which is proxied by real wage levels and a measure of industrialization. Notably, this period of emigration took place during a specific IPE regime and the extent to which this is relevant to the results will be discussed at more length in the analysis.

Asides from the structural features of development perhaps accounting for the diverging results between the two types of studies, from a panel study in the previous mentioned article, Clemens (2014) suggests that the time-series studies may consider too short a period to show that a mobility transition is taking place. Using World Bank and UN data, which uses census data for the decades 1960-2010 as the basis for the measure of emigration and GDP per capita as the measure for development, he finds that emigration stocks consistently follow an inverted U-shaped pattern in relation to overall development for each decade, indicating that the mobility transition is a consistent feature of development. According to his findings, there is no indication

that increased incomes result in lower migration for lower-middle income countries until they reach a level of income of around roughly 7000\$-8000\$ (2005 PPP US\$) GDP per capita. After that point, increases in income begin to show a decrease in emigration rates. From these results, he offers an interpretation of why the cross-section studies and the time-series studies are not consistent in their findings. If a country is at the beginning stages of development at 500\$ per capita, e.g. like Burundi, and assuming an average growth rate of 2% (average country growth from 1960-2000 was 1.8%), then it would take 133 years to reach the zenith of the inverted U-shaped curve. Starting at 2000\$ per capita, like Zambia, and assuming an average growth rate of 3%, it would take 42 years to reach the zenith (Clemens 2014: 156). While these are very rough estimates, the possible duration of a mobility transition could be a reason why the time-series studies do not consistently find an inverted U-shaped curve. Because emigration rates can fluctuate a great deal from year to year, the periods under consideration in the studies may not cover the whole of the transition and thereby give rise to the diverging results. It therefore seems plausible that the mobility transition is a consistent element of economic development despite the diverging results.

However, while Clemens doesn't comment on it in his study, his results also indicate that the countries undergoing the transition are producing an increasing number of emigrants. In his sample using World Bank data, countries at the zenith of the mobility transition had an emigrant stock of around 0,06 in 1960 relative to population size, while in 2000 that number had increased to almost 0,15 (ibid.: 155). A similar trend is evident in his sample using UN data and both therefore seem to suggest that the amplitude of the mobility transition has been increasing. That the mobility transition seems to produce higher rates of emigration is also in line with the findings that the number of international migrants has been increasing both relatively and absolutely since the 1980s. The number of international migrants as a percentage of world population was respectively, 2,3% in 1965, 2,1% in 1975 and 2,2 % in 1985 (Hatton and Williamson 2008:205). However, after this relatively stable period, this number increased to 2,9% in 1990 to a 3,5% in 2019 (UN DESA 2019). This increase in the number of international emigrants combined with Clemens' findings of the mobility transition producing higher numbers of emigrants may indicate that some structural features exist which are increasing international emigration rates. Therefore, while Clemens' findings indicate that the mobility transition seems to be a general feature of economic development, it is less clear from the literature on the mobility transition why the global trend in migration has experienced such fluctuations and why countries undergoing the mobility transition are producing relatively higher rates of emigration.

A possible interpretation of the upward trend in emigration, as seen in Clemens' sample, could therefore be how policy affects migration over the medium to long-term. This could also provide another explanation for why the time-series studies' results diverge from the cross-country studies. Under this interpretation, the diverging results would be a reflection of development taking place under structurally different economic conditions which produced relatively less migration. Moreover, the stark contrasts between the high emigration rates of the pre-1914 era, the fall in emigration afterwards, the relatively stable rate after WWII until 1990 where international migration increased again, also coincides with more fundamental changes in the structure of the international political economy which could account for the U-shaped pattern in global migration trends. These effects would be harder to capture in a cross-country study, as the effects of the domestic policy and changes in the political economy need time to have an impact. In this way, the theoretical gap identified in the first section of this chapter therefore points to how migration trends have changed over time and between countries. While Clemens uses a panel study, to capture the time element, his usage of GDP per capita have a harder time to capture the dynamics of economic development, that Dustmann and Okatenko showed can have an impact on migration decisions, and therefore does not explain the rise in emigration rates that his results also show.

To summarize, this chapter has highlighted two issues in the literature on the mobility transition. First, it is argued that there is a theoretical gap between a long-term conception and short-term conception of the mobility transition. Because of this theoretical gap, there has been paid less attention to the possible effects on the mobility transition of the structural features of development for countries undergoing the mobility transition. Second, the usage of GDP per capita as the primary measure for development may have more difficulties in capturing the multidimensional nature of the process of development. This risks obscuring the way economic development affects emigration incentives differently depending on the broader political economic context that development takes place in. While the studies using this measure have argued convincingly that the mobility transition is a feature of the development process, it can be problematic for explaining the variations in emigration rates among countries and over time. The next chapter will therefore present an analytical framework to study more systematically the structural effects of economic policies on the relationship between development and emigration in the medium to long-term.

## Chapter 3 – Theory and analytical framework

As pointed out in the previous chapter, the proxy of GDP per capita has significant shortcomings in capturing the structural features of economic development that might create incentives to migrate. Other theories have tried to focus more on these structural features such as world systems theory where migration was analyzed in terms of core and periphery countries (Massey et. al. 1993: 454). While offering an account of these structural features of economic development and how these could affect migration, the theories have nevertheless sometimes been criticized for being “*analytically “soft” and operationally limited*” (Todaro 1992: 766). The purpose of this chapter is to lay out an analytical framework to address this critique and connecting this to the theoretical gap between the short-term and the long-term conception of the mobility transition identified in the previous chapter.

### 3.1 Theoretical Background

The theoretical background of this thesis draws on the work of Karl Polanyi. One of the central arguments in *The Great Transformation* (1944) was centered around a critique of laissez-faire economy in that it was not simply a product of market forces; that it indeed needed a great deal of planning. The idea of markets being a product of social institutions and a result of political decisions forms a central background to methodological framework. Thus, as the migration researcher Douglas Massey also notes: “*Markets do not exist a priori; they are created by human actors for the purpose of economic exchange and distribution*” (Massey 1988: 392). By focusing on the regulation of markets, that is, how production and financial transactions are governed, and how this structures society and the conditions for economic development, it raises the issue of why the usage of GDP risks being inadequate. As a number representing output, it has less to say about the conditions under which that output is produced and the effect on migration incentives may therefore be significantly different despite similar growth rates. The same holds true for other measures of development e.g. wage levels, that these measures can exist within different political economies and therefore affect migration incentives differently. The argument is not that these measures should be discounted but without a complementary analysis of the political economy associated with these measures, it may be difficult to interpret these numbers in the sense of how development actually induces emigration. The purpose of a framework based around IPE is therefore to provide an analytical background to these measures of development and through this framework, attempt to account for the differences observed in mobility transitions between countries and over time.

It is from this theoretical background, that the theoretical gap will be attempted to be addressed. As mentioned in the previous chapter, the theoretical gap refers to what the relationship is

between the short-term conception of a "migration hump" caused by a single policy, and the mobility transition referring to the migration effects of economic development over the long-term. The problem the theoretical gap is concerned with is therefore to find a framework which can analyze the effects on migration incentives of a series of different policies as well as the conditions under which these policies were implemented. The method proposed here to do this will be centered around political economy following Polanyi's conception of markets and society being interconnected and markets being the product of social arrangements. As such, the theory of how the conditions under which development takes place and its effects on migration may be called the political economy of the mobility transition. The purpose of a political economy of the mobility transition is to provide a framework under which the data on emigration and the proxies of development may be compared across different historical periods and political economic regimes by focusing on how markets are regulated and how this impacts migration incentives. Thus, the empirical problem the political economy of the mobility transition therefore seeks to investigate is what role the political economy has in explaining the differences observed in duration and amplitude of mobility transitions over time and across countries. An analysis through such a framework may then add to the current debate on why the results seem to vary depending on the observational method employed.

To begin developing a framework to analyze how market structures may affect the process of economic development and migration incentives, the theoretical concept of policy space<sup>2</sup> will be used. Policy space can be used to conceptualize the relationship Polanyi argued exists between society and markets. This concept can be defined as "*a government's ability to select the policy instruments via which they address their economic problems*" (Kentikelenis et. al 2016: 547). Even in a closed economy, there are limits to what economic policy can do for promoting development. This may be limits on tax policy, financial policy, interest rates etc. where the degree of freedom over policy may be inhibited by a host of factors such as political instability, contractual obligations, potential trade-offs between equality and efficiency and so forth. These factors are also dependent on the degree of liberalization and deregulation of domestic markets which further determine the policy levers available for policy makers (Akyüz 2007: 3). In an open economy, the domain on which policy can be exercised may be narrowed even further and to what extent depends crucially on the structure of the international political economy. In a world of international exchange, the domain on which domestic policy can be exercised may be constrained *de facto* by the influence of foreign policies and *de jure* by obligations to international treaties governing trade and investment (ibid.: 4). Both the *de jure* and the *de facto*

---

<sup>2</sup> In the literature, the concept of policy autonomy is also sometime used, which it is more or less synonymous with.

constraints on policy space may also reinforce each other in the sense that a country may not be *de jure* obligated to follow certain policies, but the structure of the international economy may leave it with few other options. This element of the *de facto* constraining of policy space is thus similar to the concept of network externalities (Eichengreen 2008: 4). The structure of the international political economy can therefore affect the scope of domestic policies available to policy makers significantly, by the international treaties countries are bound to and the network externalities the international political economy induces. It is this dynamic between the structure of the international economy and domestic development policies that will provide the theoretical connection between the long-term conception of a mobility transition with the short-term conception of the "migration hump". The next section will offer a framework within which the concept of policy space can be analyzed in relation to the international economy.

### 3.2. Analytical framework

To explore how market structures may affect a government's policy space, I will use a framework proposed by the economist Dani Rodrik called "the political trilemma of the world economy" which explains how the domestic economy may be affected by the structure of the international economy (Rodrik 2000: 180). The framework was inspired by the more well-known monetary trilemma of open-economies, which states that of the following three policy options, only two are possible (Obstfeld 2003: 1):

1. Fixing the exchange-rate, for stabilizing relative prices in international trade.
2. Free capital mobility, which can improve efficiency and flexibility among countries.
3. Monetary autonomy, for stabilizing output and by extension employment.

If all three are pursued at the same time, it can lead to capital flight and arbitrage in international markets and is therefore unsustainable. This original trilemma thus also concerns how policy space could be narrowed although mainly from the perspective of monetary policy. If it were the case that monetary autonomy was sacrificed for the other two, it will leave policy makers with less policy space for stabilizing employment – often a critical factor in the context of migration.

The political trilemma of the world economy expands this framework to apply more generally to the international political economy. Analogous to the previous trilemma, of the following three political arrangements, only two can be chosen (Rodrik 2000: 181):

1. Integrated national economies, for increasing efficiency and improving growth by reducing transaction costs, with integration referring to a higher degree of harmonization of economic policies.
2. “Mass politics”, defined as the democratic franchise being unlimited, where there is a high degree of political mobilization, and political institutions are responsive to these groups.
3. The nation state, defined as “*territorial-jurisdictional entities with independent powers of making and administering the law.*” (*ibid.*)

As in the monetary trilemma, all three can't be pursued at the same time, as the economic forces would ultimately prove unsustainable. According to Rodrik, if an integration of the national economies and mass-politics is desired, then the nation-state as a jurisdictional entity would have to conform itself to the demands of the market. By increasing the level of integration, national regulations and preferences would have to be sacrificed in order to conform to the market and eliminate restrictions on goods and services across borders. This harmonization of rules would thus entail that mass-politics be moved to the global level in a political regime resembling a sort of global federalism, severely restricting the role of the nation-state and national preference. However, if the nation-state as a jurisdictional entity is to be preserved at same time as international economic integration is pursued, then mass-politics would have a much more narrow room for representation. This follows from the above reasoning, that as international markets become integrated, then in order for the nation-state to conform to this integration, policy would have to be set to the global standard for maintaining market confidence. Without a forum for these rules to be negotiated in, like a regime of global federalism, then mass-politics would have to be relegated to a minimal role. Thus, in a highly integrated world economy, if there were popular political will to raise taxes to fund social programs or institute environmental regulation, it would result in investments being directed elsewhere or the outsourcing of production if these policies were to be instituted. Rodrik terms this political regime the “golden straitjacket” as this roughly corresponds to the experience of national governments during the Gold Standard of the 19<sup>th</sup> century (*Ibid.*: 182). As the last option, integration would be sacrificed in order to preserve mass-politics and the nation-state. If the push towards integration is minimized, mass-politics can be exercised within the boundaries of the nation-state according to their preferences. At the same time, less integration will increase transaction costs for international trade and finance and too little integration risks causing slower growth or even stagnation. He terms this regime the “Bretton Woods compromise” after the economic order that prevailed in the first decades of the post-WWII years. The choice between the different political regimes in the model is not an absolute one and in the

real world, systems conform to some sort of intermediate regime with the balance in the trilemma tilted in one or the other direction. The trilemma model serves more as a way to think conceptually about the different trade-offs that have to be made when navigating between these three choices and how it affects a country's policy space. As such, the trilemma model is a stylized framework of the international economy to think conceptually about how it interacts with the policy space of a country and how this can change over time.

Rodrik's framework offers a view of how different political regimes might affect the structural conditions for economic development and by extension, how they might impact migration incentives differently. If the balance in the international economy is tilted in such a way as to restrict the policy space of a country for welfare policies, like Dustmann and Okatenko identified as having an effect, then for a country undergoing the mobility transition, it would presumably induce relatively more emigration. Or, as in the case of Martin and Taylor's "migration hump", the increased economic integration caused by NAFTA produced a shift in trade relations and restructured employment opportunities which induced more emigration. But rather than a specific policy having an effect on migration, like Martin and Taylor suggested, then the structure of the international political economy as an integrated system affects the conditions for the process of development by impacting the policy space available more generally, as trade-offs are med between the different political regimes. Depending on the country-specific circumstances, these choices and trade-offs could impact migration incentives differently thus changing the conditions under which the mobility transition takes place. The trilemma model thus offers a framework through which the international political economy may be conceptualized and therefore serve as an analytical background against which the data on economic development may be held against. As such, the framework offers a way to analyze how the process of economic development might have caused different emigration patterns, depending on the prevailing political economy.

To make the mechanisms by which the choices and trade-offs in the political trilemma impacts the policy space of countries more concretely, the next section will describe three areas of policy where the structure of the international political economy affects the structure of the domestic economy and the policy space available. The effects of these policies on the development process include various benefits and risks but do not entail necessary outcomes. As mentioned, liberalization can also improve growth by reducing transaction costs. Therefore, a host of factors like the pace of liberalization, the degree of it, what agents are involved, what markets it concerns etc. all affect how it impacts the development process. How the international political economy affects migration is therefore also not given a priori but depends on country-specific circumstances. The section will primarily explain how the international political economy affects

the process of domestic development in more general terms and then in chapter 4, the analysis will go on to discuss in more detail how these channels have impacted migration patterns in specific circumstances.

### 3.3. IPE and migration incentives

From an economic point of view, the way national economies interact with each other is through the balance of payments (BoP), which accounts for trade and capital flows, while the international monetary system can be seen as “*the glue that binds national economies together*” (Eichengreen 2008: 1). In an international context, it is therefore primarily the regulation of trade, capital flows and monetary systems that affects the policy space available to policy makers. This section will present an overview of these three areas of international economic policy and how they may impact the conditions for domestic economic development. How these are regulated and the policy space they afford may thus impact migration incentives differently during the process of economic development.

#### 3.3.1. Domestic economic effects of international trade

Trade is an integral part to economic development, both for exporting surplus production and for importing products in which a country doesn't have comparative advantage. Capital imports can also introduce vital technological innovations which can improve worker productivity and overall welfare. The welfare and productivity improvements arise from what are conceptually divided into the static gains and the dynamic gains from trade. The static gains from trade were first formulated rigorously by David Ricardo through the notion of comparative advantage. Under the assumptions of perfect competition and full employment of resources, countries could reap welfare gains by specializing in the production of goods with the lowest opportunity cost and thus export excess production over domestic demand in exchange for foreign goods (Thirlwall 2003: 3). The welfare gains from free trade thus arise from more efficient allocation of resources but these are, however, a one-off gain in productivity. Once the tariffs have been lifted and the resources are allocated more efficiently, there are no more productivity gains to reap. The dynamic gains from trade, on the other hand, are the gains from trade caused by increased productivity due to technological and institutional innovations, and increased capital investment particularly from foreign direct investment. These gains arise especially if the sector that the country specializes in are subject to increasing returns, as the expanding export markets become a continuous source of growth (ibid.: 5).

Whether it is the static gains or dynamic gains from trade that give rise to the welfare increase can have a significant impact in the structure of the domestic economy. As the static gains from trade are a one-off welfare improvement, it is the dynamic gains from trade which have more

sustainable growth prospects. Most developing countries have a comparative advantage in the production of primary commodities and if they liberalize too soon, this can therefore pose challenges for long-term growth for several reasons. First, contrary to production in the manufacturing sector, the primary sector is subject to diminishing returns to scale as these activities are land-based. This imposes a natural constraint on the amount of labor this sector can absorb (Ibid.: 7). Overreliance on the primary sector will therefore put downward pressure on wages and may induce more unemployment. Second, primary commodities have low income and price elasticity of demand. This means that as incomes rise, it doesn't affect demand much, while an increase in supply can lead to a dramatic drop in price (Ibid.). This can lead to more volatile economic growth, as foreign exchange earnings fluctuate with prices on international markets. If this produces BoP imbalances to such an extent that it necessitates a reduction in imports, it can risk that the gains from trade may be wiped out or even turn negative, as this can limit the full employment of resources which were a necessary assumption for the static gains of trade liberalization to be realized (Ibid.: 9). Thirdly, the terms of trade for primary commodities have been deteriorating over the last 100 years. This causes the nominal value of these commodities to decrease vs other commodities, and capital imports therefore become more expensive in real terms. For countries relying on primary commodity exports, the increasing costs in real terms can therefore diminish the country's growth prospects as capital imports become more expensive, as opposed to a country having comparative advantage in manufacturing exports which generally have had improving terms of trade. Fourthly, by specializing in primary commodities and liberalizing too early, it can make it more difficult to transition into capital intensive production as it will be difficult to compete in international markets. Under such circumstances, the country would have difficulties with moving out of producing primary commodities with the negative consequences outlined above. These difficulties are exacerbated by not having a well-established manufacturing sector whereby the benefits of the externalities this sector can provide to the rest of the economy can be reaped (Pettis 2014: 8). In the context of migration, if a country mainly derives its growth from primary commodity production, with the natural limits of employment absorption in this sector and as the population increases, it will increase the incentives for emigration.

Whether the productive gains from trade accrues from the static gains from trade or the dynamic gains from trade can thus have differing effects on migration incentives. The "migration hump" resulting from NAFTA that Martin and Taylor studied thus primarily concerned the migration effects of how improving the static gains from trade affected migration incentives in the short-term. If rapid global economic integration is pursued it is primarily these static gains from trade which would be actualized. However, this may come at the expense of the country's ability to

advance the dynamic gains from trade which are reaped through FDI and technology transfers, industrial policy or a degree of protectionism. Depending on the nature of the FDI, these policies are mostly at odds with the impetus of global economic integration, however. A balance in the trilemma model favoring global economic integration can thus cause impediments to reaping the dynamic gains from trade with the potential effects on employment and emigration.

### 3.3.2. Domestic economic effects of international payments and capital market policy

Capital market policy is used here to refer to the regulation of the domestic financial system and the financial account<sup>3</sup> of the BoP. This account is the obverse of the current account, so that when the current account is credited, the financial account is debited. The regulation of the financial account and the domestic financial system therefore affects the conditions for how capital flows in and out of the country and how it is processed domestically. The purpose of capital market liberalization (CML) is to promote efficient capital allocation by integrating the domestic and the international financial systems through the deregulation of the domestic financial sector and by liberalizing the financial account (Schmukler 2008: 48). Briefly put, the regulation of the financial account refers to a wide ranging set of policies which may be taxes on inflows and outflows, regulatory requirements for investors, and regulation around sectors that may be invested in. A more detailed description of what these policies may entail can be found in Appendix A. The regulation of the financial account in relation to the policy space available to states was also alluded to earlier in the monetary trilemma of open-economies. This section will describe in more detail what macroeconomic effects it can have, what welfare effects it may produce and therefore how it might affect migration incentives. The traditional approaches to economic development and growth have usually paid less attention to the role of capital flows and the relationship between money and economic development. Exemplary of this can be seen in a widely used textbook on advanced macroeconomics which in its introduction states: *“Money, for example, is almost surely central to inflation but not to long-run growth. Incorporating money into models of growth would only obscure the analysis.”* (Romer 2012: 4). This view is also what has informed much of the empirical studies on the relationship between emigration and development in its reliance on GDP per capita as the proxy for development. In this section it will be argued that excluding the role of money and liquidity from analyses of economic development actually does obscure core features of the analysis of economic development at least in the sense of how it relates to migration.

---

<sup>3</sup> The term capital account is also sometimes used collectively to refer to both the financial account and the capital account in the BoP although, the actual capital account is usually only a small post tracking items such as debt forgiveness. It is therefore not directly connected to current transfers such as the financial account.

According to Schmukler, the liberalization of the capital account and the process of financial globalization can offer at least two benefits. First, it can increase the availability of funds for developing countries by reducing the transaction costs for investments and therefore give access to the large investor-pool in developed countries. Second, it may improve the financial infrastructure which means that “*borrowers and lenders operate in a more transparent, competitive and efficient financial system*” (Schmukler 2008: 157). A more transparent financial system will therefore reduce risk and thereby make credit more cheaply available for investments. CML can therefore help develop local securities markets by opening up them up to competition as well as increase the trading of these securities by making them more flexible to foreign investors. Thus, by sacrificing a degree of policy space in this area, the ambition would be to reduce transaction costs, by increasing economic integration.

The extent to which the benefits of CML may be realized, however, is connected to a more fundamental debate about why capital flows from rich countries to poor countries and what the driver is of international capital flows. According to Michael Pettis, theories of how capital flows from rich to poor countries mainly fall into two categories. The first, which he calls the investment model, focuses on “pull” factors and is predicated on “*improved growth prospects precede and cause investment inflows*” (Pettis 2001: 35-36). In this model, when domestic reforms are instituted in the developing countries, international investors will review the growth prospects of the country and begin investing accordingly. The second category, which he calls the liquidity model, focuses on “push” factors and is predicated on “*capital inflows precede and cause growth*” (ibid: 36). In this model, the emphasis is placed on dynamics in advanced countries which has led to an internal excess of liquidity. This excess of liquidity is more than can be absorbed in traditional domestic investments and capital then begins to flow towards investments carrying more risk and thus affords a higher yield. EMDC securities are an extreme example of such investments being very high-beta assets<sup>4</sup>. Numerous theories exist around the nature of capital flows, but they mainly fall within these two categories (ibid.). Examples of theories falling within the investment model include the classical liberal theory which focuses on interest rate differentials among countries driving capital flows, or the theory of development economics which states that capital flows are a function of the “stage” of economic development a country has reached and as such capital inflows are a reflection of what is appropriate for that particular stage (Suter 1992: 12-13). Examples of theories falling within the liquidity model is the Imperialism-Leninism theory which centers around internal class struggles in the advanced

---

<sup>4</sup> An asset’s beta is defined as the volatility of the asset compared to the volatility of some index. An example could be a Turkish sovereign bond in relation to developed countries’ sovereign bonds, like US Treasuries or UK Gilts.

capitalist economies, where the dynamics of monopoly and financial capitalism forces capital flows to developing countries which are seen as a key driver for the expansion of imperialism. Another example is dependency theory, which has its roots in a Marxist-Leninist approach, but rather than focusing on internal class struggle, the focus of the analysis is on the dependency relations capital flows engender between the core and periphery countries (ibid:15).

This is only a small sample of the theories which exist and which one of these specific theories is the most accurate depiction of the world is beyond the scope of this thesis. But looking at the history of international lending, it is nevertheless hard to reconcile the overall data with the investment model. Surveying the history of international lending from 1820-1985, Christian Suter observes clear and identifiable waves of international lending booms and defaults. “*The number of countries in default or subject to rescheduling agreements relative to the number of all sovereign states amounted to 29 percent (late 1820s), 37 percent (mid-1870s), 40 percent (early 1930s) and 27% (mid-1980s)*” (Suter 1992: 2). In *The Volatility Machine* (2001) Michael Pettis surveys the buildup and collapse of each of these periods of international lending and argues that the timing of these lending booms and collapses coincides with periods of liquidity expansions and contractions in advanced economies rather than being a result of improved macroeconomic fundamentals in the developing country. If the investment model were the basic framework driving international capital flows, one would expect foreign investment being connected to economic reforms as they were implemented in the developing country rather than coming and going in waves as Suter’s data shows to be the case. To understand how international capital flows may affect the conditions for economic development, it is therefore necessary to understand how the liquidity model approaches the dynamics behind these flows. The liquidity model finds its most parsimonious formulation in the works of Charles Kindleberger and in Hyman Minsky’s “financial instability hypothesis” (ibid: 38). As mentioned above, in most macroeconomic models, the role of money is often abstracted away from, while in the liquidity model, money and the creation of credit is given a fundamental role. Figure 1 presents a stylized model of how money and credit creation function in an economy.

The figure shows how money can be thought of as having two dimensions; a qualitative dimension and a quantitative dimension and one of the points of the liquidity model is that these two dimensions are interlinked. The qualitative vertical dimension illustrates how money has a continuous quality to it, and what sort of money is accepted as payment depend on the specific

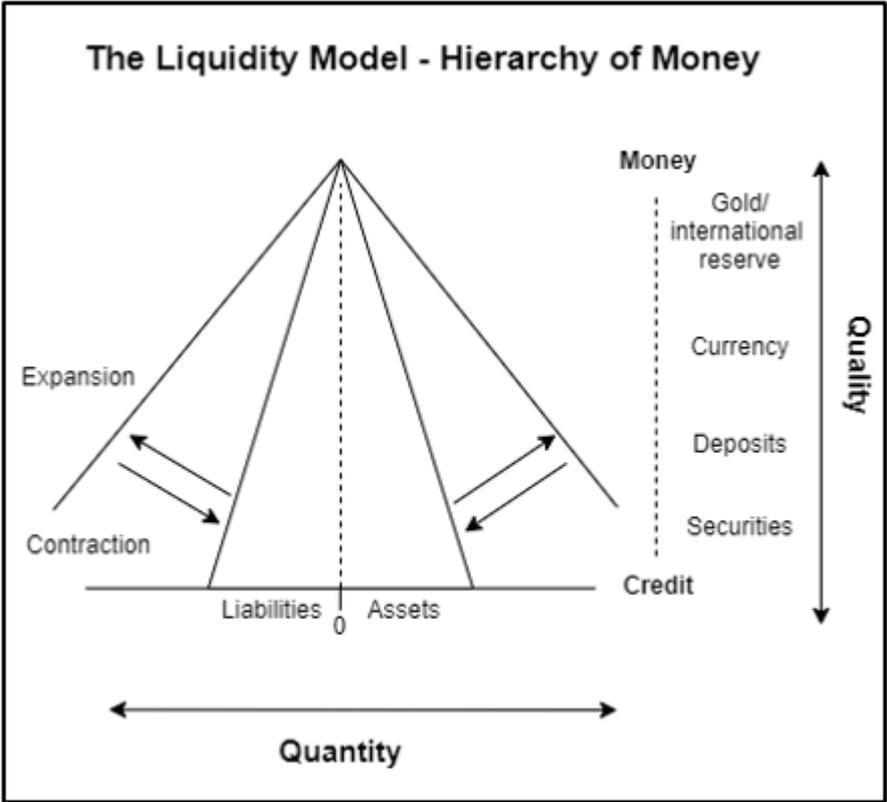


Figure 1: Own illustration, developed from Mehrling 2016, lecture notes p8-10.

circumstances. From this qualitative dimension emerges what can be called a hierarchy of money and what was thought of as money during a liquidity expansion, may turn out to be a credit during a liquidity contraction. The horizontal quantitative dimension illustrates how liquid the system is and how this can affect the effective supply of money, as more kinds of money is accepted as payment. Pettis explains this relationship as:

*“[...] all assets can perform some of the functions of money, but their abilities to perform these functions can vary. How easy an asset is to transfer, value and monetize – or how “liquid” it is – for example, will all affect its use as money. As securities move up the liquidity scale, they begin to act more and more money-like – not that they cross the line from nonmoney to money but rather that money-ness and liquidity is a continuous quality, not a static condition” (ibid.: 41)*

By recognizing this relationship between money and credit creation, the actual money supply can increase by what Minsky called a “displacement” causing an expansion in liquidity (Minsky 1982: 121). Such liquidity expansions can be caused by a variety of factors such as an increase in base money e.g., new gold discoveries, regulatory changes in the financial system, regulation of

the banking system increasing the amounts of deposits vs the money base, or increases in the “money-ness” of some assets causing them to function more as money – that is, moving up on the hierarchy of money. The effect of such a displacement is that liquidity expands and the base in the pyramid of the figure expands causing an expansion in the effective supply of money. The result of this expansion is that it lowers the cost of capital and lowers the real interest rate as well as increasing asset prices (Pettis 2001: 42). While Minsky’s “financial instability hypothesis” was a theory of the dynamics of financial crises in general, Pettis extends the argument that these liquidity expansions have consequences for capital inflows to EMDCs. The liquidity expansion in the advanced countries induces a lot of self-reinforces behavior, as more types of assets are taken as good collateral which causes credit to expand. This increases the price of assets and lowers the yield on traditional investments which causes the capital inflows to developing countries. However, as the liquidity expansion begins to reverse in the advanced countries perhaps due to inflationary pressure, raising of the central bank’s interest rate, a banking crisis etc., the capital flows to the EMDCs reverse as well and therefore puts these countries at immense risk of financial crisis.

While the evidence on international capital flows conforms mostly to the liquidity model in historical perspective, it is important to note that the two models are not wholly inconsistent with each other. During liquidity expansions, analysis of macroeconomic fundamentals such as tariff levels, debt-to-GDP, real currency valuation etc. may be very useful in picking the *relative* best investments among EMDCs (ibid: 37). An analysis of macroeconomic fundamentals as exercised by various institutional investors is therefore not unwarranted, as posited by the investment model. But the dynamics creating the momentum to invest in EMDC securities in the first place is best explained by the liquidity model. Thus, Pettis concludes:

*“The major conclusion that arises from the liquidity model is that as far as the LDC recipient is concerned, the important turning points in the investment decision is largely exogenous, although domestic shocks can also cause short-term investor withdrawal”* (Pettis 2001: 87)

Viewing international capital flows as being fundamentally driven by internal dynamics in the advanced countries, it can have significant implications for the conditions for economic development in EMDCs depending on how these inflows and outflows are regulated. As such, CML can affect the policy space of states in a number of ways by exposing them to various macroeconomic risks. Taking capital flows as being exogenously determined, the policy space for a state may be limited in the extent to which it can pursue macroeconomic stabilization measures. With an open financial account, domestic interest rates will tend towards working pro-cyclically thereby overheating the domestic economy during liquidity expansions and

making the downturn more severe during liquidity contractions. During the liquidity expansion, capital will flow into the EMDC and the increased availability of capital will put downward pressure on the interest rate causing asset prices to rise. With CML, if the central bank attempted to increase the interest rate to stem the rise in asset prices, it would only induce even more capital inflows as the return on capital would increase. During the liquidity contraction, the capital flows will reverse, and asset prices will start to decline. If the central bank attempted to raise interest rates in order to stem the outflow of capital, it would cause the economy to depress further as the price of capital increases which would lead to more bankruptcies, aggravate unemployment and depress aggregate demand even further (Stiglitz 2008: 15). By blunting the effect of interest policy through CML, it therefore makes economic growth more volatile in general and increases the risk for economic crisis.

Increased volatility in economic growth can have direct welfare effects and as such induce more emigration. With CML, the volatile nature of capital flows has been shown to impact income groups asymmetrically (Charlton 2008: p126). During the good years of increased growth, while usually benefitting the whole country, much of the welfare gains accrue the higher income groups. During the downturn and as capital flows out, it is the lower income groups that are hardest hit as this segment have less access to social insurance and are usually the first to be affected by unemployment. This asymmetric impact of growth with liberalized capital markets have indicated that the decrease in poverty during the period of growth is not commensurate with the increase in poverty during the downturn (ibid.). Economic growth under conditions of liberalized capital markets can therefore increase the incentive to migrate first in the immediate term, by causing a more severe economic downturn that impacts lower income groups disproportionately. But secondly, it could also increase the incentive to migrate over the longer term, as the decision to migrate is evaluated against the future risk of economic downturns and easier to fund during the period of growth with the greater availability of capital (Massey et al. 1993: 436). CML may further change the conditions for economic development in such a way as to induce emigration by making it easier for international investors to engage in regulatory arbitrage. With CML it becomes more difficult to increase regulation around environmental standards, maintain tax regimes to fund social expenditure and raise the working conditions for labor and their bargaining position for wage increases (Charlton 2008: 129). CML can also induce reforms of the domestic banking sector which can affect how credit distributed, directing capital away from rural areas and small enterprises to urban centers and large companies (Charlton 2008: 132). If the EMDC has a comparative advantage in the production of primary goods, the allocation of credit to these sectors, rather than being allocated more broadly, would put pressures on traditional sectors of employment increasing the incentive to emigrate.

Viewing capital flows through the liquidity model takes advanced country dynamics as being central to what drives international capital flows. How finance is regulated in the advanced countries therefore have implications for capital flows for EMDCs. The trilemma model sketches an outline of how the international conditions for capital flows and liquidity expansions is affected by the balance between the options in the trilemma. More economic integration as was seen under the classic Gold Standard and after Bretton Woods saw increased capital mobility, while being more restricted during the Bretton Woods regime. The conditions for liquidity expansions thus changed in line with the change in the structure of the international political economy as conceptualized in the trilemma model.

### 3.3.3. Economic effects of exchange rate regimes

The two sections above have described how the regulation of the current account and the financial account in the BoP can affect the conditions for economic development. As these transactions are recorded in different sovereign currencies, the exchange rate regime a country uses can also affect the conditions for economic development. Various exchange rate regimes exist for a country to choose from, ranging from a completely fixed exchange rate to a freely floating exchange rate with a range of intermittent regimes in between (Thirlwall 2003: 77). How different exchange rate regimes impact the conditions for economic development depends on the specific circumstances for individual countries and how different exchange rate regimes may impact the incentives to migrate is therefore not obvious a priori. Nevertheless, depending on how trade and capital flows are regulated, the economic effects of exchange rate regimes can be substantial.

Fixing the exchange rate may offer domestic stability but constrains the ability of adjusting the exchange rate to address imbalances in the BoP. Stripped of the ability to use the exchange rate to address payments imbalances, the economy would have to adjust by other means. This may be through an increase in debt or through deflating the economy. Deflation may take place in a number of ways, either by lowering wages, raising taxes, increasing unemployment or by emigration. While in theory emigration is a way for the economy to adjust to payments imbalances in lieu of the exchange rate mechanism, the extent to which it will be actualized depends on the specific economic circumstances. If the international conditions are favorable to it, a fixed exchange rate may offer sufficient domestic stability that deflation is sufficiently rare to induce emigration. However, the viability of fixing the exchange rate also depends on how the financial account is regulated. If the financial account is liberalized, maintaining a fixed exchange rate becomes exceedingly difficult as the country becomes exposed to speculative capital flows. If the financial account is liberalized at the same time as a fixed exchange rate

regime is pursued, as the economy experiences shocks, emigration would be able to serve as a way for the economy to adjust and reattain external balance.

The purpose of floating the exchange rate is that BoP imbalances would adjust themselves as foreign currencies are traded in international markets to reach its equilibrium price. In theory, the country would not have to worry about maintaining external balance and be free to pursue an independent monetary policy and domestic economic goals. However, floating the exchange rate exposes the country to volatile exchange rate movements which can have severe adverse consequences (ibid.:91). Volatile exchange rate movements can cause disruption to trade flows as well as have deflationary and inflationary consequences of the domestic price level by its effect on the changing price of imports and revenues from exports. This volatility and the risk of both inflation and deflation can therefore also affect migration incentives and the extent to which it does depends again on the country specific circumstances and international economic environment.

The exchange rate can thus have a significant impact on migration incentives and is therefore necessary to include in an analysis of the relationship between migration and economic development. However, as the effect on migration incentives is dependent on the underlying economic conditions, how the financial account is regulated and how the international monetary system is regulated, an analysis of the exchange rate regimes impact on emigration incentives must take these specifics into account.

### 3.4. A political economy of the mobility transition

This chapter has proposed a framework under which the political economy may be analyzed and how this shapes the conditions for economic development. The framework has described the interaction between the structure of the international economy and the domestic economy as proposed by Rodrik's trilemma model. A description of the areas of policy concerning trade, capital flows and exchange rate regimes has been presented for how this interaction can affect the conditions under which economic development takes place. This chapter has proposed various channels whereby this interaction can affect migration incentives substantially and thus change the amplitude and duration of the mobility transition. As such the framework attempts to offer the link between the short-term conception of a "migration hump" with the long-term conception of a mobility transition by focusing on the political economy in which migration patterns took shape. By focusing on the political economy, the framework offers an analytical lens to offer an answer to what extent the historical data on the relationship between emigration and proxies of economic development may be compared over time and across countries.

The next chapter will put the framework into practice and analyze the political economy during various periods of changes in migration patterns. Through analyzing these periods, the chapter will offer a complimentary interpretation to the one made by Clemens in his study concerning the mobility transition and why divergences exist in the empirical results as well as why global migration trends seems to have followed a U-shaped pattern. To trace this global pattern, the analysis will therefore begin with examining the European mass migrations, which was also the period where the mobility transition was relatively most pronounced. An analysis of the structure of the IPE spanning from the pre-1914 migrations to the present is vaulting in scope and as such, the analysis will be confined to trace a somewhat fragmented and selective history of the evolutions of the IPE. But by situating these periods and evolutions within the trilemma model and juxtapose these with data on emigration rates, it will be argued that a relationship does seem to emerge between the conditions for economic development as determined by the political economy and patterns in the mobility transition.

## Chapter 4 – Analysis

In relative terms, the European mass migration was probably the largest movement of people in history. From the period between 1854-1924 more than 48 million people emigrated from Europe which were equivalent to 12,3% of the population in 1900 (Massey 1988: 286). But what is striking about the European mass migrations is not only the massive increase in emigration rates, but also the variation between countries and at what time the acceleration in emigration took place. In their book *The Age of Mass Migration* (1998) Hatton and Williamson have compiled a remarkable amount of data on both the amount of people who emigrated internationally as well as on the economic and demographic factors that influenced this massive migration. In this book, which is in part based on the article (Hatton and Williamson 1994), they attempt to answer to what degree these mass migrations can be explained in terms of economic fundamentals.

For twelve European countries, Hatton and Williamson present the decade average gross emigration rates relative to population size for the period 1850-1914. Figure 2 is based on this data which was based on visas and passenger registration on ships bound to ports outside Europe (Hatton and Williamson 1998: 32-33). A few data points are missing from the data, mostly from the earlier period, but the data still gives an overall picture of the size and variation of emigration rates over the period. These are gross figures, so the return migration is not included in this data. As Hatton and Williamson also remark, the high numbers from Italy during 1900-1913 is probably a reflection of not including return migration and the relatively lower transport costs

as opposed to the mid-19<sup>th</sup> century (ibid). As for Ireland, they ascribe the high emigration rate as a reflection of the Irish famine and the high emigration afterwards as a result of the network effects of diaspora due to the initial wave of emigration (ibid: 46).

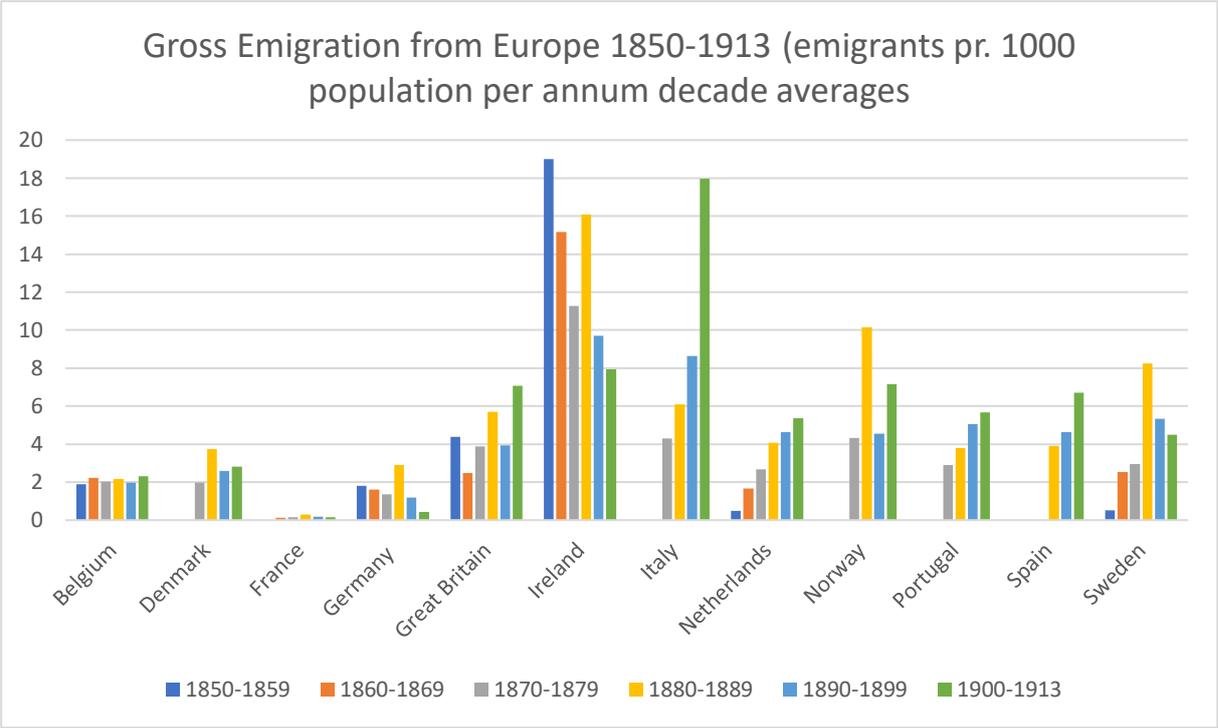


Figure 2: (Based on data from Hatton and Williamson 1998: 33)

To answer the question of why these variations exist in the long-run trends in emigration, Hatton and Williamson employs an econometric model around five variables, with the emigration rate being the dependent variable. The four independent variables are first, the real wage difference between home country and foreign destination. Second, the share of the labor force in agriculture serving as a proxy for industrialization. Third, the migration stock abroad to proxy for the network effects or so-called path-dependence, and fourth, the rate of natural increase to capture the effect of the demographic transition (Hatton and Williamson 1994: 546).

According to their econometric model based on these variables, they conclude that the model explains the country variations fairly well: “the observed low emigration rates from France and the high emigration rates from Ireland were not due to some deviant behavior but rather were due to differences in the environment driving their emigration experience.” (ibid.: 548).

From the results of their model, the variable that seemed to have the most powerful effect in explaining country variations was the rate of natural increase, or the demographic transition, while the wage differential also had a powerful effect. The share in agriculture and the effect of network effects also had an impact but were more modest in comparison (ibid.: 557). They also

test for the occurrence of a mobility transition, or emigration life-cycle as they call it, and find support for the hypothesis. As the mobility transition began at different times for different countries, they introduce a measure called “emigration time” which aligns the peak value of emigration rates for different countries and uses that measure to index the duration of the mobility transition across countries. According to their model, the emigration data fits these variables and thus they provide the following interpretation for the mobility transition:

*“In the early phases of emigration time, the demographic transition, industrialization, and the cumulative impact of the emigrant stock out-weighed the negative impact of real wage convergence. But as the demographic forces petered out, as the impact of industrialization weakened, and as the emigrant stock abroad began to level out, real wage convergence increasingly dominated events.”* (ibid.: 556)

Their study has drawn attention to some important relationships in what drove the European mass migration and given the conditions at the time, what some of the relative causal factors were at play. At a more fundamental level, however, while their model may indicate that the differences in economic fundamentals explain a lot about pre-1914 migration, the model does not say, why these economic fundamentals were so different across countries such as why France had such a low natural increase or why England’s share in agriculture was so low compared to the rest of Europe. As Hatton and Williamson use an econometric model specified by five variables, it is by definition confined to studying the relative causal relationships between these variables. If other variables had an effect, it is not included in their study. In order to explore these limitations, the next section will give an account of the structure of the international political economy of the time within the framework presented in chapter 3. After having described the effects of the political economy on development and welfare, another interpretation of the data and the fundamentals will be offered through the cases of various European countries. The section will criticize the results of Hatton and Williamson on two grounds. The first criticism will address the limitations of their econometric model. From the work of the economist David Khoudour-Casteras, I will present two other mechanism which affected migration incentives, and which were largely a reflection of the prevailing political economy. Due to the model specification, these are not captured in the study of Hatton and Williamson. To better understand the mobility transition of the European mass migrations as well as what causal factors would shape the mobility transition in the future, it will be argued that an analysis which doesn’t factor in the political economy is bound only to be partial. Second, it will be argued that the proxies that Hatton and Williamson employ are not only an expression of economic fundamentals, but an expression of the political economy as well. The pre-1914 migration experience was therefore not one where the economic fundamentals were free of political interference but were crucially shaped by the structure of the political economy. It is

therefore not completely warranted to contrast the pre-1914 migration patterns as a period of “free” migration to the period that followed with “constrained” migration as it was not only immigration laws that changed (Hatton and Williamson 2005: 4). More fundamental features of the political economy changed as well. Having argued the significance of the political economy in shaping the economic fundamentals, the first part of the analysis will conclude that Hatton and Williamson’s conclusions should only be partially accepted. The political economy of the pre-1914 migration was significantly different than the ones which emerged subsequently. Comparing post-1914 emigration experiences with the pre-1914 mass migrations is therefore somewhat anachronous.

#### 4.1. The political economy of nineteenth century

Tracing the political economy spanning over such a long period and over so many countries is bound to be only partial. However according to the historian Eric Hobsbawm some common themes do emerge such as: “*the massive advance of the world economy of industrial capitalism, of the social order it represented, of the ideas and beliefs which seemed to legitimize and ratify it: in reason, science, progress and liberalism.*” (Hobsbawm 1975: 15). It is these social developments that shaped the political economy and in turn shaped the fundamentals that Hatton and Williamson used as variables. By using the analytical framework presented in chapter 3, the international political economy of the period will be analyzed in these terms and how this affected emigration incentives.

For much of the period of the mass migrations, the monetary arrangement conformed to options one and two in the monetary trilemma of open economies, that is having a fixed exchange-rates and free capital mobility while sacrificing monetary autonomy. This was institutionalized through the operation of the Gold Standard which, given the liberalism that defined the period, had significant effects on welfare and migration. As for the broader political trilemma, the political economy can be characterized as conforming to option one of having integrated national economies in the form of the relatively liberal trade regime at the time, option three of having clearly defined nation-states as jurisdictional entities and then sacrificing option two of mass-politics. While popular revolutions saw periodic occurrences during the period, and some form of broader political participation was accessed by the upper classes especially during the end of the period, the democratic franchise was not expanded to the vast majority, and the political influence was therefore limited. However, there were differences in the political economy among states, and it will be argued that some of these differences translated into different migration patterns, both by shaping the fundamentals Hatton and Williamson use in their model, as well as through other channels not included in their model. The analysis will focus on three areas of the political economy. First, the operation of the Gold Standard, and how this exchange-rate

regime required domestic deflation for BoP adjustment. Apart from deflation inducing migration through engendering unemployment, currency devaluation was not an option within this regime and migration in itself therefore functioned as an adjustment mechanism for BoP imbalances. Second, which is connected to the previous discussion of the Gold Standard, the migratory effect of the limited influence of mass-politics. The deflationary measures were mostly possible due to the majority of the population having limited political influence to protest the effects of deflation. The limited influence of large parts of the population also had effects on wages, employment, labor conditions, each which could induce emigration. Through the limited role of mass-politics and by the adherence to liberalism, the role for welfare policies were more or less absent. There were exceptions and there is evidence that this caused a reduction in emigration. Third, the free trade regime, while not universal throughout the period and differed among countries, arguably had an effect in structuring the domestic economy and making domestic economies more vulnerable to conditions in international markets. By contrasting features of the political economy of France with those of England, it will be argued that this translated into different emigration rates during the period; with France experiencing almost none, while England having one of the highest.

#### 4.1.1. The functioning of the Gold Standard and its relationship to migration

The basic model of the Gold Standard worked by each country fixing their currency to a certain amount of gold and their currency could then be exchanged according to this exchange rate, thus making a country's amount of gold the anchor for the monetary base. Within this model of international exchange, if a country found itself in a BoP deficit, gold would have flown from the deficit country to the surplus country as it would have made more payments than it had received. This would cause prices to fall as the money supply contracted in the deficit country while raising them in the surplus country. Due to corresponding price differentials, equilibrium would be restored automatically over time. Another way to restore equilibrium in advance of gold outflows was for the deficit country to raise interest rates to attract capital which would restore the BoP imbalance but also resulted in a contraction of credit causing prices and wages to fall, or workers being laid off. In the surplus country, as capital had flown in, the supply of money had increased, making credit cheaper and thus putting downward pressure on interest rates causing prices and wages to rise. This process would make the deficit country more competitive in international markets while the surplus country less competitive, thus restoring equilibrium (Thirlwall 2003: 81).

Equilibrating capital flows, however, hinged on the creditor's unwavering belief on states' commitment to defending the currency's parity with gold no matter the circumstances. The system didn't work quite as simple as described above. Gold flows were relatively rare due to the

central banks raising the discount rate in advance of gold outflows as well as the perception of governments commitment to the gold parity also engendering stabilizing capital flows in advance of interest increases. Apart from the banking system affecting the amount of domestic credit, a fiduciary system also played a role as international reserves backed by government bonds which comprised the monetary (Eichengreen 2008: 24-29). The equilibrating capital flows, however, hinged on the creditor's unwavering belief on states' commitment to defending the currency's parity with gold no matter the circumstances. These flows were related to the discount rate as it were raised in advance of gold outflows which would depress the economy. These measures were only possible because governments were insulated from pursuing other policy objectives such as full employment or economic growth (Rodrik 2011: 36). While the economic effects of adjustment could be rather severe, due to the prevailing structure of the political economy, the effects were not evenly felt, as Barry Eichengreen argues:

*“Because the right to vote was limited, the common laborers who suffered most from hard times were poorly positioned to object to increases in central bank interest rates adopted to defend the currency peg. Neither trade unions nor parliamentary labor parties had developed to the point where workers could insist that defense of the exchange rate be tempered by the pursuit of other objectives. The priority attached by central banks to defending the pegged exchange rates of the Gold Standard remained basically unchallenged. Governments were therefore free to take whatever steps were needed to defend their currency pegs.”* (Eichengreen 2008: 2)

These steps to defend the currency peg therefore had significant effects on economic activity and employment. As governments didn't provide unemployment insurance, emigration therefore became a strategy for workers to respond to periods of deflation.

The effects on emigration rates of external adjustment constrained by the Gold Standard have been studied econometrically by the economist David Khoudour-Casteras (2005). In a study of 16 European countries for the period 1890-1914, he studied the relationship between the trade balance, the exchange rate and emigration rates. For the correlation between these variables, the 16 countries could roughly be divided into three groups. For the first group, which had committed to the Gold Standard, he found that they had a very low correlation between trade balance variations and the exchange-rate, as one would expect, given that the exchange-rate was fixed. On the other hand, the correlation between the trade balance variations and emigration rates was found to be strong in these countries<sup>5</sup>. For second group of countries<sup>6</sup>, the correlation between trade balance variations and emigration was weak, while it was strong between trade

---

<sup>5</sup> The countries being: Belgium, Denmark, France, Germany, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom

<sup>6</sup> Spain, Portugal and Greece, joining the Gold Standard in 1910

balance variations and the exchange-rate, as the policy space for exchange-rate adjustment for trade imbalances remained. For the third group<sup>7</sup>, a mixed relationship was found which can be interpreted as a reflection of the fact that these countries committed to the Gold Standard during the period under study, with Russia going on in 1897, Austria-Hungary in 1896 and Italy in 1902 (Khoudour-Casteras 2005: 24). Comparing these findings to the data on Italy in Hatton and Williamson, this would also help explain the dramatic increase in emigration rates from 8 per 1000 population in 1890-1899 to 18 per 1000 population in 1900-1913 as seen in figure 2 above (while remembering that return migration is not included). Further supporting the effect of the Gold Standard on emigration rates, Austria-Hungary experienced relatively modest emigration rates prior to 1896 of around 1-2 emigrants per 1000 population. But after committing to the Gold Standard, not only did the flows become more volatile, but there was also a general increase in emigration rate with Austria peaking at around 6 emigrants per 1000 population and Hungary at around 12 per 1000 population (ibid.: 26).

The evidence of countries' emigration rates when they committed to the Gold Standard highlights both the effects of the IPE as well as an instance of how Hatton and Williamson's model of pre-1914 emigration is incomplete. As countries committed to the Gold Standard, they sacrificed the policy space of the exchange rate mechanism to address the capital flows that were generated in the advanced countries. As liquidity conditions changed in advanced countries, the expansion it engendered may have been positive for the countries' industrial sector, but once liquidity conditions became unfavorable, cash commitments made by business during the expansion became more difficult to honor and economic activity would decrease leading to unemployment. The effect that Khoudour-Casteras measures as increased emigration as a response to BoP imbalances can be interpreted to support this analysis. The inclusion of monetary conditions and the policy space available to address credit imbalances thus has an effect but is missing from Hatton and Williamson's model. While wage-growth is used as a proxy for development, the effect of wage-rate volatility is not included. The evidence that Khoudour-Casteras presents nevertheless shows how volatility engendered by the IPE regime can cause an increase in emigration rates. The contrast in emigration rates between the three groups of countries in his sample suggests that the mobility transitions during the pre-1914 migrations were exacerbated by this element of the political economy.

#### 4.1.2. Welfare policies and emigration: The exception to the rule in Bismarck's Germany.

In Hatton and Williamson's sample, Germany appears as an outlier for being one of the few countries which saw a significant structural decline in emigration rates to the US. Hatton and

---

<sup>7</sup> Russia, Austria-Hungary and Italy

Williamson's results indicate that wage convergence and demographic developments as being two of the main variables driving the rise and decline in emigration to the US. However, according to evidence presented by David Khoudour-Casteras, these conclusions are unlikely to apply to the case of Germany. From 1867 to 1914, the wage ratio between the US and Germany remained constant around a ratio of about 1,9 (Khoudour-Casteras 2008: 9). At the same time, Germany's emigration rate was very volatile swinging between 1 and 5 emigrants per 1000 population, rising after the end of the US Civil War, dropping after the German financial crash in 1873, to then rise during the American boom in 1880, sending around 540.000 emigrants (ibid.: 4). During the period 1850-1914, Germany sent around 5 million emigrants, thus being one of the countries which sent most emigrants to the US (ibid.: 2). At the same time, fertility rates in Germany didn't peak until 1902 so timing of the demographic transition does not match the structural decline in emigration rates as seen in figure 2 above (ibid.:11). Khoudour ascribes this structural decline to the welfare policies instituted by Bismarck in the 1880s. Numerous laws were initiated such as the sickness insurance law of 1883 where the number of insured employees rose from around one fifth of the population to about half of the population until 1913. During the period, expenditure on health care also increased from 47.4 million marks to 390.7 which also increased the quality of the coverage (ibid.14). An accident insurance was implemented in 1884 which also had the effect of improving worker conditions as it created an incentive for employers to prevent accidents in the first place (ibid.:16). In 1889 both an invalidity scheme as well as an old pension system was implemented and during the 1891 and industry code was implemented that also targeted worker conditions such as maximum hours of work allowed and prohibited Sunday work for industry (ibid.: 18,21). As such, the working population of Germany enjoyed a level of security that the populations of other European countries didn't. Theoretically, he accounts for the effect of these policies on emigration rates as increasing the workers' sense of security and therefore diminishing the incentive to emigrate as the prospects of finding employment opportunities abroad is associated with various uncertainties (ibid.: 34, 45). Econometrically, he accounts for these social policies as indirect wages and therefore goes beyond Hatton and Williamson's measure of only using direct wages as a variable. The construction of an indirect wage level is however subject to uncertainties but nevertheless finds a statistically significant effect with the measure he constructs (ibid.: 48) (with an R squared value of 0.95, significantly higher than Hatton and Williamson's).

A more comprehensive system of social insurance in European countries mainly emerged after WWI. As Eichengreen argued above, he attributed this to the expansion of the democratic franchise and therefore the ability of local populations starting to demand them. The question therefore arises why Germany implemented such social insurance schemes while other

European countries generally did not. Khoudour-Casteras attributes the emergence of social insurance in Germany under Bismarck to policy makers beginning to focus on emigration rates because of a growing recognition of the importance of the labor force for the process of industrialization as well as in geopolitical terms resulting from an increased awareness of these two elements due to the Franco-Prussian war (ibid.:12). While Germany's welfare system didn't arise from a broad expansion of the democratic franchise, the fact that it did shows an example of the effect of welfare policies on emigration rates. The distinction Hatton and Williamson make between the pre-1914 era as being a period of free migration vs the period after as being "constrained" is therefore not only a question of immigration barriers, but also how the political economy evolved. After WWI and WWII, the increased demands for national economic policies, employment stabilization and welfare policies, all being connected to the expansion of the democratic franchise, thus had an impact on emigration incentives. The push for social insurance here served a geopolitical agenda, whereas the popular pressures for social insurance are usually predicated on a degree of mass-democracy as conceived of in Rodrik's trilemma.

Like Khoudour-Casteras, Hatton and Williamson also study time-series, but only for the UK and the Scandinavian countries. While unemployment and business-cycles are important they emphasize the importance of the wage ratio as well as chain migration. From the study of these countries, they conclude that the "*results are largely consistent with the country cross-section results*" (Hatton and Williamson 1998:74). However, as the above discussion makes clear, the leap from the time-series studies to the cross-section study does not apply to Germany. How well it applies to other countries is an open question, but it is clear that the glib leap made by Hatton and Williamson is not justified especially considering that all of the countries in Hatton and Williamson's study participated in the Gold Standard which, as indicated in the findings above, accelerated the rates of emigration.

As is emphasized by the evidence presented by Khoudour-Casteras, the explanations provided by Hatton and Williamson must be inadequate and in the case of Germany, the wage ratio must have had little importance. In terms of the effect of network effects, Germany was one of the countries in Europe that sent most emigrants during the pre-1914 mass migrations. The fact that Germany still saw a structural decline in emigration rates could indicate the importance of the political economy beyond the economic fundamentals studied in Hatton and Williamson's study. But as welfare policies were the exception rather than the rule in this political economic environment, the impact of economic fundamentals on emigration rates would appear to be stronger. The discussion of the Gold Standard and the welfare policies of Bismarck highlights how the assumptions of an econometric model without the interpretive background of the IPE in which the economic fundamentals were measured risk overemphasizing the relationship

between the variables in the model and their effects on emigration rates. The IPE regime of the Gold Standard and the welfare policies of Bismarck show how policy space and the role of policy are likely to shape emigration patterns in fundamental ways. The evidence from Germany also cast doubts about the effects of the rate of natural increase which Hatton and Williamson pointed to having a significant effect. In the case of Germany, the peak of the demographic transition happened after the structural decline in emigration rates, so to what extent the mobility transition in other countries were driven by demographics or by the prevailing IPE is hard to conclude from Hatton and Williamson's econometric model. These details only emerge looking at individual countries' political economy.

The Gold Standard and Bismarck's welfare policies are examples of channels not included in the model as a result of the model specification. The next section will describe how the political economy, may also have shaped the variables of the econometric model used by Hatton and Williamson. The model may therefore fit the data, but it may have been the political economy, that has shaped the data. Ascribing migration patterns to economic fundamentals rather than the cause of political choices, could therefore be a case of reverse causality.

#### 4.1.3 The relationship between the political economy and the economic fundamentals.

How the political economy can shape the economic fundamentals will be analyzed through the cases of France, England and Germany and how their respective political economies shaped two of the variables in Hatton and Williamson's model. The first variable is that for industrialization, which they have proxied by the share of workers in agriculture (Hatton and Williamson 1998: 38). The second variable to be discussed will be the demographic variable, or rate of natural increase, which according to Hatton and Williamson, had a high statistical significance on emigration rates. While the share of workers in agriculture did not affect the emigration rate as much as the rate of natural increase, it will be argued that in the case of France the two were interrelated, and that this was in large part a result of the political economy. Therefore, while Hatton and Williamson conclude the low emigration rates from France are not an anomaly from the point of view of the fundamentals, the unusual demographic transition and the process of industrialization in France warrants further investigation, if we are to understand the relationship between migration and development and how policy affects the mobility transition.

In England, the process of industrialization was more encompassing whereas in France it was more gradual (Horn 2010: 76). In England, the experience of the enclosures and the prevailing commitment to free trade during the nineteenth century produced a much more radical change in the socioeconomic structure. This internal struggle is perhaps best epitomized in the struggle over the Corn Laws of 1846 which removed most of the tariffs on agricultural products and were

removed completely with William Gladstone's budget of 1860 (Irwin 1993: 147). By contrast, France maintained one of Europe's most illiberal trade regimes throughout the century (ibid: 150). For England, the abolition of tariffs made it more difficult to sustain a livelihood through agriculture, while capital exports from England surged. This process thus fostered a faster rate of urbanization and a larger share of workers in industry. Already in 1830, the proportion of landowners and their families has been estimated to comprise around 14% of the population in England while in France, this number stood at almost 63% (Cummins 2009: 225). That Britain sought to abolish its tariffs on agricultural goods was part of its functioning as the center of the Gold Standard as it rested on and supported this system of trade (Eichengreen 2008: 41). Britain did so by exporting capital goods to the periphery, while allowing primary commodity imports and thus required Britain to have the most liberal trade system in Europe. Thus the political economy of Britain's free trade and its function at the center of the operation of Gold Standard are difficult to disentangle from the fundamentals in Hatton and Williamson's econometric model. According to their model, while England's high emigration rates conform to the low share in agriculture, this low share itself is a product of the political economy, creating the high amplitude for the British mobility transition.

The differences in land ownership between England and France are an indication of how different the income distribution was as well as the different composition of the industrial and agricultural sector in France. In agriculture, a notable feature was that the level of employment remained fairly constant throughout the nineteenth century and in general French history has been marked by a large class of rural proprietors (Ogden and White 1989: 7). A broader share of the population was therefore landed and had connection to the land which is also indicated in the numbers above. Because of this, France was also less unequal than England at the time where it was more pronounced (Cummins 2009: 225). This broader access to land also shaped the process of the French industrialization. French industrialization was marked by being fairly rural, with small businesses employing a few number of people. It was only until the very late nineteenth century that large scale industry became more wide-spread and only in a few regions like Lyon, Marseille, St. Etienne and Lorraine among others which remained the large centers of industry up until even 1950. Otherwise, French industrialization remained largely confined to being small-scale operations employing few workers (Ogden and White 1989: 7). Thus, during the middle decades of the nineteenth century, small-scale household industry and artisans comprised 59,9% of industrial output and employed 70,5% of French workers employed in industry (Aminzade 1984: 330).

With the share in agriculture being more constant, and industry being more confined to small-scale operations, according to Aminzade, it gave workers more leverage in determining the

conditions of the working environment. A sense of this aspect of French industrialization can be gleaned from following quote from a St. Etienne police commissioner about the ribbon industry: *“Merchants are refusing many orders [because] the workers refuse to work past 7.00 pm [even though] the prices paid to them for their ribbons are more than double than they were a year ago!”* (quoted in Aminzade 1984: 338). The impact on labor conditions on emigration rates thus resembles that of Bismarck’s welfare policies, although in the case of France, they were driven by differences in income and property distribution. Despite France’s process of industrialization being markedly different than England, it does not seem to have been at the expense of growth. In the period from 1815-1914, France had approximately the same GDP per capita ratio to England at about 20 percent below. France therefore still experienced growth but under very different terms than England (Horn 2010: 100).

Hatton and Williamson’s proxy for industrialization as the share of the working population in agriculture therefore means very different things in the context of France and in England. They argue that a larger share in industry is an indication of being more developed and would thus produce more emigrants. Thus, when England had a lower share of the population in agriculture it is therefore partly accounts for England producing a lot of emigrants, while France produced almost none. But as has been argued above, it was not so much the economic fundamentals in themselves that produced these emigration outcomes, but rather the political economy that shaped the process of industrialization which shaped the fundamentals. France’s different political history with workers being more intransigent and more broad-based landownership, compared to England’s commitment to free trade and concentration of land, thus produced the differences that the proxy of share of working population in agriculture captures. This tension between free trade and agriculture was also a fundamental debate concerning the political economy in Germany at the time, where the historian Adam Tooze notes: *“Ever since the 1870s, agriculture had been a lost cause to liberalism. Bismarck had won over the agrarians in 1879 with the imposition of the first substantial grain tariff. This had not halted the decline in agriculture, but it had significantly slowed what might otherwise have been a very dramatic process of social displacement and internal migration.”* (Tooze 2006: 29). The relationship between trade policy and industrial composition and its effect on emigration rates was as such on the mind of policy makers. Tooze’s remark on agriculture being a lost cause is made in the context of interwar Germany and thus, while liberalism promotes specialization, in the context of emigration and trade, it highlights the significance of sequencing trade liberalization as it can otherwise have a dramatic effect on the composition of the productive sector much like the migration “hump” theorized. In the case of England, the commitment to free trade and the

absence of mass-democracy (or the absence of welfare policies) thus both created the conditions for the high emigration rates that characterized England during the period.

According to Hatton and Williamson's model, while the proxy of industrialization does have an effect, it is not as significant as the demographic transition. But the different process of industrialization just described may also have affected France's unusual demographic transition. The economist Neil Cummins has argued that the original theories of why a demographic transition takes place for developing countries does not apply to the case of France. England had a higher GDP per capita than France, a smaller agrarian sector and a larger urbanization rate than France and yet, England's fertility rate lagged behind France's of around 100 years as where one would expect it to be in its demographic transition (Cummins 2009: 220). Other explanations are therefore needed to account for the low fertility rates of France. From a sample of 41 villages, Cummins studies four villages in the period from 1760-1779 to 1800-1819 where two is experiencing a fertility decline and two villages are not, in order to investigate in what respect these villages differed. For the two villages that saw a decline in fertility, this matches up with the national average for France and thus affords a degree of comparability (ibid: 204). Using data on hereditary wealth as a proxy for income distribution in village populations, for the two villages that saw a decline in fertility, he finds that decreasing fertility began for higher income groups. On this basis, he rejects the notion that the decline in fertility was due to neo-Malthusian reasons. If this were the cause, the decline would be expected for the lower income groups (ibid: 227). While the timeline for the decline in fertility is closely associated with the French Revolution, Cummins finds evidence that the fertility decline started before. The same socio-economic changes that led to the decline in fertility seems plausible to be the same that engendered the Revolution, but it was not the Revolution as such that set off the demographic transition (ibid: 225). In contrast to the rest of Europe at the time, France had abolished serfdom already in the 18<sup>th</sup> century which had led to a large part of the population being land proprietors (ibid: 224). This is also reflected in the numbers for industry and agriculture cited in Aminzade above. Having more children thus became an expense for these groups rather than as a possible source of income, contrary to England where more children could help bring in income as workers in the more industrialized urban political economy. Furthermore, it seems plausible that France's tariff policy made these small-scale industries and artisans more viable as their source of income was more insulated from global markets. France's low emigration rate compared to England is notable due to the many similarities between the two countries. Both had extensive empires which could generate path-dependence, and both were industrial leaders, but nevertheless their emigration experience diverged so strikingly. The diverging emigration

experience for the two countries is therefore consistent with the argument that the political economy and socio-economic relations had a significant impact in shaping emigration patterns.

#### 4.1.4 The political economy of the mobility transition in the pre-1914 period

From this evidence it has been argued that for the pre-1914 mass migration, the structure of the international political economy had a significant effect in shaping the amplitude and duration of the mobility transition. The evidence cited by Khoudour-Casteras emphasize the relationship between emigration rates and how a country is exposed to changes in international liquidity conditions by how capital flows and credit creation is regulated. The absence of the monetary dimension in Hatton and Williamson's model thus makes it less applicable for determining emigration rates for the post-1914 as they suggested in their 2003 article. The mass migration of the pre-1914 period was likely exacerbated in general by the institution of the gold standard and the general absence of social insurance. A major factor in the absence of this insurance, as argued by Eichengreen was the limited extension of the franchise and the counter example of Germany in the period was motivated by other concerns, but nevertheless shows the importance of these policies. Moreover, the differences observed between countries also reflected their individual political economic choices. The commitment to free trade and the enclosure movement of England compared with the protectionism of France, broad-based land ownership and the abolition of serfdom in the 18<sup>th</sup> century shaped both the industrial and agricultural sector which in turn has been suggested to have affect the demographic transition of France.

From this analysis of the political economy's impact on the pre-1914 migration patterns, the next section will point to some of the same features that changed after WWII as well as how these underwent further change beginning in the 1970s. From the analysis of the effects of the political economy on emigration rates for the pre-1914 migrations, the results seen in Clemens' data on the accelerating mobility transition can be interpreted through the lens of IPE.

#### 4.2 Post-1914 migration and the evolving structure of the international political economy

In the wake after WWI, as Hatton and Williamson correctly point out, more regulation around immigration started to emerge, which caused emigration rates to diminish. Moreover, WWI had resulted in over 40 million casualties so the amount of people in the age group usually most inclined to emigrate had deceased as well as having contracted the overall labor force in the European countries. To what extent economic development affects emigration rates are therefore hard to gauge from this period both due to the reconstruction of a civilian economy from a war economy as well as the casualties of the war. Analytical exercises on the relationship between emigration and economic development will therefore be obscured by these two aspects of the interwar years.

However, besides changes in immigration laws, the political economy that emerged after WWI had also fundamentally changed, as John Ruggie describes: “*land, labor, and capital had all seized upon the state in the attempt to reimpose broader and more direct social control over market forces*” (Ruggie 1982: 387). As Eichengreen emphasized above, the democratic franchise had been extended, and in many countries also began to include women resulting in increasing demands for social policy and labor rights. Thus, a change of the state-society relations began to emerge where popular demands called for a larger scope of political authority over economic forces. Examples of these can be seen in the revolutionary upheavals in central and Eastern Europe during 1917-1929, the general strikes in England in 1926 and after the ultimate demise of the Gold Standard in the 1930s, the New Deal in the US, the *corporativismo* in fascist Italy, state-led work-creation programs like the road modernization plan of Fritz Todt in Nazi Germany among others (Tooze 2004: 46). According to Ruggie, one of the fundamental failures of the interwar period was to attempt to superimpose the political economy of the nineteenth century, particularly the Gold Standard and the reliance of the automaticity of international re-balancing through this mechanism onto this fundamentally changed socio-economic base (Ruggie 1982: 387). Viewing the instability of the interwar years through the lens of the trilemma model, it emphasizes how pursuing all three choices in the trilemma can lead to immense instability. The failure of the League of Nations to become a functional global forum, while mass-democracy increasingly asserted itself with demands for domestic economic stability combined with the liberal economic foundation of the Gold Standard era ultimately proved unstable, with global economic integration giving way to the other two choices in the trilemma. It was against this background that the planners at Bretton Woods in 1944 set out to negotiate a plan for the international political economy, to avoid the failures of the interwar years. According to Eichengreen, the Bretton Woods system that followed WWII thus departed from the political economy of the Gold Standard in three central areas:

*“Pegged exchange rates became adjustable, subject to specific conditions (namely, the existence of what was known as “fundamental disequilibrium”). Controls were permitted to limit international capital flows. And a new institution, the International Monetary Fund (IMF), was created to monitor national economic policies and extend balance-of-payments financing to countries at risk.”* (Eichengreen 2008: 92)

In the political economy that was imagined following WWII, these policy initiatives were created to support one another and provide countries more policy space to pursue domestic stabilization policies, which were at the root of much economic harm in the interwar years. The adjustable exchange rate was instituted to eliminate BoP imbalances with the exchange rate instrument instead of deflation by raising the interest rate and controls on capital movements were

instituted to avoid putting speculative pressures on the exchange rate which enabled the peg to remain stable. The role of the IMF was to monitor domestic economic policy if they were destabilizing to the international system as well as functioning as a bank for extending trade credit.

In practice, it was mainly the capital controls which functioned during the Bretton Woods era and during 1960s, also they came under pressure as current account convertibility was restored in 1958 (ibid: 132). The exchange rate peg was rarely used as “fundamental equilibrium” remained ill-defined and the political consequences of devaluation were usually perceived negatively. The IMF mostly abstained from monitoring domestic policies as the European Payments Union evolved in its stead with US acquiescence due to the emerging Cold War. In lieu of any effective adjustment mechanism, capital controls could only postpone the problems of external adjustment as the US increased its government expenditure with President Johnson’s Great Society and the escalation of the Vietnam War (Eichengreen: 2008: 128). Combined with the expansion of world trade, the increasing demand for international liquidity was more than the dollar’s peg to gold could justify. Thus, the international system eventually came under enough stress that Nixon chose to abandon the dollar’s convertibility to gold in 1971 (ibid: 131).

While the system only functioned partially, Ruggie argues that the political economy that emerged after WWII nevertheless was predicated on a new conception of state-society relations. Rather than the prevailing liberalism of the pre-1914 era and the failed attempt at restoring it in the interwar years causing a reaction towards economic nationalism, the international political economy of the post-WWII era was characterized by what he termed “embedded” liberalism. Rather than the imposition on national economic policies required by the adherence to liberalism, the foundations of embedded liberalism was “*to devise a form of multilateralism that is compatible with the requirements of domestic stability*” (Ruggie 1982: 399).

This embedded liberalism was also what Rodrik termed the “Bretton Woods Compromise” in the trilemma model. During this period, the relatively lower level of global economic integration allowed for an increased scope for policy space for national stabilization policies. Moreover, the combined effects of the dollar’s fixed parity to gold, international liquidity creation being the primary competence of multilateral institutions, and controls on international capital, together put restraints on liquidity expansions in advanced country centers as well as made other countries less susceptible to these. This political economic environment thus afforded countries a degree of policy space as well as a degree of insulation from global economic conditions which would cause less volatile growth and therefore less incentives for emigration.

However, because the dollar's fixed parity to gold inhibited international liquidity creation, liquidity came more in demand as global trade expanded. Partly therefore, already during the 1960s, the off-shore banking sector started to emerge in London. This development thus assisted countries in facilitating BoP adjustment when the multilateral institutions were unable to (Cohen 1982: 457). However, as the off-shore banking market was a more deregulated market, it also contributed to the mounting pressures on the capital controls of states as it provided an avenue through which the controls could be circumvented. After the breakdown of Bretton woods, these international financial markets were increasingly afforded a larger role, as Cohen explains:

*"the private banking system took over the functions proper to an official institution possessed of the power to finance balance- of-payments disequilibria through credit-granting and to create international liquidity.... The function of creating international liquidity has been transferred from official institutions to private ones."* (ibid).

The role of the off-shore banking sector became more dominant as a result of the oil crises of 1973 and 1979. With oil being denominated in dollars, the increasing surplus of the oil producing states were channeled through this market and lent to states that came in deficit as a result of the price increases in oil. The combined effects of the shift in the international monetary system from the pegged exchange rate regime to a floating exchange rate regime, the evolution of the off-shore banking sector and the price increases in oil, can be interpreted as constituting such institutional changes which could be termed a displacement in Minsky's sense of the word. These developments enabled an expansion in liquidity to take place and a lending boom to developing countries ensued. The subsequent end to this liquidity expansion came when Paul Volcker as chairman of the Federal Reserve raised the interest rate to curb inflation during 1979-1982, reaching a level as high as 21% by 1981, prompting the German chancellor Helmut Kohl to characterize it as a rate of interest not seen "*since the birth of Christ*" (quoted in Tooze 2018: 44). As much of the debt in EMDCs was denominated in dollars, the dramatic increase in interest rates forced debt servicing costs to skyrocket which resulted in the debt crises as seen in Christian Suter's data mentioned in the previous chapter.

While the role of international liquidity creation had been taken over by private markets, with the dollar remaining the international reserve currency, international liquidity was still under the purview of US monetary policy. These private institutions had no leverage in forcing sovereign states to implement policies which would enable them to repay their debts. After the crisis, debt restructuring and the issuance of new debt, were therefore made contingent on what creditors deemed a satisfactory stabilization program as recommended by the IMF (Cohen 1982: 474). These were the so-called structural adjustment programs and the policy recommendations

within them centered around “*the deregulation of domestic markets, the privatization of public firms, and the liberalization of trade and financial flows.*” (Khoudour-Casteras 2010: 442). With the abandonment of the Bretton Woods Compromise, the balance in the trilemma gradually began to move towards more economic integration with the World Trade Organization coming into operation in 1995 and with the capital controls being dismantled in advanced countries during the 1980s (Eichengreen 2008: 136). However, the pace of increasing economic integration was uneven across regions with Africa and Latin America moving more rapidly in that direction, while being more gradual in East Asia (Helleiner 2019: 1126). According to Rodrik, one of the effects of this increased economic integration was that the two former regions began to de-industrialize as the exposure to global competition put pressures on the nascent manufacturing sectors (Rodrik 2015: 2). The increased economic integration thus reoriented the economies toward their static comparative advantage which was mainly centered around primary commodity production with their limited prospects for sustainable growth and employment as mentioned in the previous chapter. As can be seen in figure 3, both regions experienced negative and stagnating growth after the liquidity contraction, with SSA only reaching a comparable level of income in the mid-2000s.

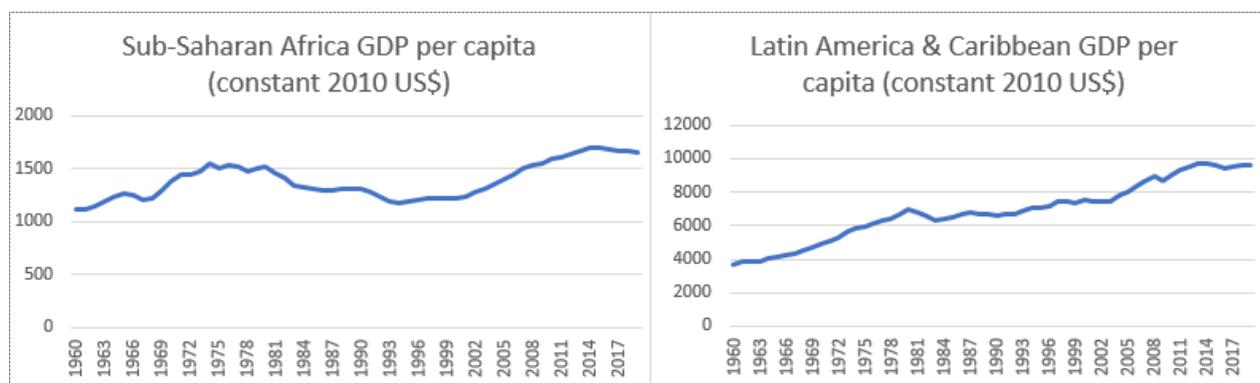


Figure 3, based on World Bank data

For SSA, the credit constraint thus remained binding preventing the onset of a mobility transition, while in Latin America being more affluent, the orientation towards increased economic integration and less regulation as mandated by the IMF, had a more immediate impact on emigration rates. How the deregulation and increased economic integration affected emigration rates in Latin America has been studied by Khoudour-Casteras for the period 1981-2002 (Khoudour-Casteras 2010:440). His study uses similar econometric proxies as Hatton and Williamson but uses GDP per capita as the proxy for income. However, the model includes a broader set of variables such as a proxy for the level of trade-openness measured as the combined sum of exports and imports as a percentage of GDP, and a proxy for the level of social expenditure of GDP. He finds that the level of trade-openness has a positive impact on the level of emigration rates while the level of social expenditure has a negative impact, in that the lower

the expenditure, the higher the emigration rate (ibid. 469). The level of trade-openness having an effect on emigration rates can be interpreted as being similar to the effect of the “migration hump” that Martin Taylor studied for NAFTA, while the effect of social expenditure can be interpreted to be similar to the effect on emigration incentives identified by Dustmann and Okatenko. Analyzed in terms of the trilemma model, the reorientation of the political economy towards more economic integration to regain export competitiveness thus reduced the policy space for the countries in Latin America to provide social insurance inducing more emigration. This would provide an explanation for the findings of Dustmann and Okatenko concerning the increased likelihood for emigration from dissatisfaction with local amenities in Latin America. The increased emigration from trade-openness could also be interpreted in the light of Rodrik’s findings of de-industrialization for the region, in that the economic integration caused a reorientation of the productive sector towards the static comparative advantage rather than the dynamic comparative advantage with the concomitant effects on labor absorption. Under this interpretation, the rise in emigration rates is thus as much a reflection of a structural change in the industrial composition of the economy rather than just reflecting temporary shifts in labor markets.

While it is true that many of the state owned enterprises (SOE) were bloated and inefficient, this was not the case for all industries in Latin America (Baer 1972: 109). In general, inefficiency is not necessarily a feature of SOEs as such. Successful experiences have included the steel manufacturer Posco in South Korea which became one of the best performing steel companies in the world (Tiryakioğlu 2012: 150). The development strategy in China has also relied heavily on SOEs and they are integral part of its overall economy (Wu 2016: 270). If SOEs are insulated from competition, they are at more risk of becoming inefficient, but SOEs can be important for initial industrialization if a level of internal competition is encouraged. The extent to which they should be employed in a successful development strategy is not the main concern here, however, but rather that external circumstances as posed by the liquidity model caused the economic downturn in Latin America, not the development strategy as such. This external shock, which came with the Volcker interest rate increases, choked off efficient and inefficient SOEs alike and brought on a new political economy which produced the relatively higher emigration rates compared to the period of economic development before.

Since the 1980s, the pace of economic integration kept on accelerating and the financial sector came to take on a more pronounced role in the world economy. The increase in the share of global population being emigrants and the increasing amplitude of the mobility transition as seen in Clemens data have thus followed this development concomitantly. While the IMF pushed for making the prohibition of capital controls part of its charter, the East Asian Crisis of 1997

prompted members of the Global South to resist this change. Since the Great Financial Crisis which started in 2007, the development towards global economic integration has been met with an increased recalcitrance and the activist monetary policy of the central banks in the advanced countries has cast doubts on the ability of markets to regulate themselves. How the relationship between global economic integration and the mobility transition will develop going forward will therefore be influenced on what new global rules emerge from these developments. Nevertheless, according to the analysis presented here, the trilemma model and the liquidity model provides an analytical lens through which the evolutions in the structure of the international political economy has affected the evolution in the mobility transition as seen in Clemens' data in chapter 2. The liberalism of the pre-1914 period significantly impacted migration incentives and as norms and rules shifted towards greater economic integration starting in the 1980s, so did the amplitude in the mobility transition as well. In the analysis offered here, the evolution of the global migration trend following a U-shaped is also consistent with the interpretation of it being a reflection of the changes in the structure of the international political economy. By analyzing the political economy in which development indicators were measured, it has provided an interpretive background for how these indicators have affected emigration incentives differently. The analysis has also challenged the characterization of the pre-1914 and post-1914 periods as being respectively a period of “free” and “unfree” migration. The pre-1914 migrations were heavily influenced by the political economy and the mobility transition during this period was therefore amplified because of this.

## Chapter 5 – Implications for development policy

Through the causal channels theorized in chapter 3 and as has been argued in the analysis above, approaching the mobility transition through the lens of how emigration incentives are affected by the structure of the political economy, opens up for a range of different policies which have the potential to ameliorate the amplitude and duration of it. These range from larger scope for industrial policies, focus on careful sequencing trade liberalization, more lenient attitudes towards capital controls and attention to what exchange rate regime would be optimal for both development and migration management. An IPE approach to the dual goals of emigration management and economic development policy should therefore focus on areas such as dampening economic volatility, the political economic feasibility for lessening inequality, and the political economic feasibility for improving social insurance and labor conditions. However, as has been argued in the analysis, how these policies are designed optimally with regards to both promoting economic development and emigration management, is highly dependent on

the specific country circumstances. Each of these areas of policy and how they should be designed is therefore beyond the scope of this thesis but nevertheless offers a numerous areas for further study. As such, an approach to development policy centered around IPE offers an analytical lens for promoting both economic development as well as addressing the amplitude and duration of the mobility transition.

If the broader dimension of the political economy is not taken into account, the assessment that the development initiatives in Africa proposed by the EU would generate emigration pressures in the magnitude imagined by Hatton and Williamson does not seem implausible. The structural features of the political economy affecting the conditions for economic development must therefore be taken into account. One such example where the broader political economic structure is predicated on increased emigration is the CFA franc zone in Africa. This zone comprises 14 countries in Africa split into two monetary unions, the West African Economic and Monetary Union (WAEMU) which consists of 8 countries and the Central African Economic and Monetary Community (CEMAC) which consist of 6 countries. Each union has its own central bank, the Central Bank of West African States (BCEAO) for the WAEMU and the Bank of Central African States (BEAC) for the CEMAC which determines monetary policy for their respective countries (Qureshi and Tsangarides 2008: 201). However, the defining feature of the two currency unions is the fixed exchange rate regime which is pegged to a fixed value of the euro and this exchange value is guaranteed by the French Treasury by in principle unlimited convertibility at the listed rate. This is guaranteed through the so-called operations account at the French Treasury but in order to avoid free-riding by the countries of the CFA, a number of administrative structures are implemented to avoid this (Fielding 2002: 5). This includes the central banks maintaining 50% of their foreign assets at the French Treasury with central banks being able to undertake so-called “ratissage” operations which would require public or private entities to deposit foreign assets with the central banks for maintaining the currency’s value against the euro (Kai and Sylla 2019: 11). Other measures allow the central banks restrict its rediscount facilities to domestic financial institutions in the respective countries which provides an instrument for controlling credit creation. As such, if a data emerges that a country spends beyond its mean, these facilities can be restricted. However, this rule does not apply to short-run agricultural credit for the purpose of smoothing consumption over the harvest cycle (Fielding 2002: 74).

To achieve price stabilization and lower transaction costs, the CFA countries have thus surrendered a significant amount of policy space in the areas of national monetary policy and exchange rate policy. In conventional economic theory, however, whether it is a beneficial trade-off to belong to a supranational monetary union depends significantly on how similar the

underlying economies are. While most of the countries are primary commodity exporters, the main exports from among countries vary sufficiently so that external shocks affect economies differently and can cause sharp variations in the terms of trade between them (Qureshi and Tsangarides: 203). Without the exchange rate mechanism or monetary policy to address these shocks, like the countries adhering to the Gold Standard, something else in the economy has to adjust. For the CFA franc to be an optimal currency zone therefore requires factor mobility or a system of fiscal transfers for adjustment. However, fiscal transfers are inhibited by the general poverty of countries, the lack of institutional infrastructure for tax collection and fiscal transfers (ibid). Moreover, the institutional limits on expanding credit by the administrative structures of the central banks further inhibits fiscal measures and as such, emigration becomes one of the main absorbers for external adjustment in lieu of other macroeconomic measures. For the zone to function there is therefore few other options than to rely on labor to move freely throughout the zone for external adjustment. But once economic conditions incentive emigration, one would expect that the decision to emigrate internationally is also further incentivized. From the perspective of external adjustment, international emigration also serves as a better shock absorber than internal migration within the currency zone in the sense that it is usually accompanied by remittances which would help alleviate BoP imbalances.

The evidence on whether the benefits of the currency area outweigh the cost is mixed. Nevertheless, it is evident that growth performance for the region has been far from successful. Whether the regime has a positive impact on growth or not, economic development under the CFA franc currency regime would most likely generate a mobility transition with a significantly higher amplitude as emigration remains one of the few absorbers for external economic shocks. As the problems of the euro makes clear, the benefits of a currency union are not obvious. Without a consolidated fiscal budget and a regular system of transfers, even in regions with advanced institutions, currency unions can present numerous problems. Turning the CFA into a successful currency union both from the perspective of emigration and stable economic development seems problematic as the institutions of the monetary zone are cut-off from democratic politics by the administrative structures tying it to the French Treasury and due to the heterogenous economies comprising the union.

## Chapter 6 – Conclusion

Why has the mobility transition displayed such different amplitudes and durations throughout history? To answer this question, the argument has proceeded by clarifying what the contents of the theoretical approaches to the mobility transition have been. In some respects, the theory of the mobility transition has been 'under'-theorized in that different concepts have mapped different phenomena. The theory has been applied both to the emigration rates resulting from long-term development as well as from emigration rates resulting from a single policy. How these two conceptions are related thus poses what can be termed a gap in the theoretical conception of the mobility transition. This has resulted in the process of economic development being conceived of in analytically different ways in how it relates to migration incentives. The result of this theoretical gap and analytical issues has proved less fruitful in explaining why the mobility transition has varied among countries and over time. To address this issue, chapter 3 presented a framework centered around IPE to analyze the relationship between the structure of the international economy and its influence on the mobility transition. As such, the analytical framework sought to bridge the gap between the short-term conception and the long-term conception of the mobility transition by focusing on how the political economy affects the process of economic development. By taking this analytical lens, it allows for a comparative analysis between countries and during different periods and analyze whether the process of economic development can be assumed to be the same and how the process has affected emigration incentives.

From a review of the evidence on the mobility transition through the lens of the trilemma model and the liquidity model, the data is consistent with the conclusion that the relationship between migration incentives and economic development are affected by the interaction between the structure of the international political economy and the policy space afforded by it in the domestic economy. Specifically, when the demands for external adjustment narrowed the scope for domestic stabilization measures or when the political economy exposed the country excessively towards changes in international liquidity conditions, the process of development produced more emigrants, than if the country was able to retain a larger degree of policy space. By recognizing this relationship between political economy and emigration incentives, it is possible to provide a deeper analysis of the effect of the development policies by the EU in Africa. If these structural features of the political economy is not taken into account when deploying the various investment vehicles, the ambition to address the root-causes of migration is unlikely to be successful. As has been emphasized throughout the thesis, how the political economy interacts with the process of economic development is highly contingent on specific circumstances, and policies surrounding investment should therefore be analyzed by taking

these individual circumstances into account. The thesis offered a tentative account of how such an approach centered around structural features could yield analytical result through the case of the currency union of the CFA franc in Africa. In this case, the economic regulations of a currency zone determine the conditions under which economic development takes place, both by exposing the countries to economic dynamics in advanced countries as well as narrowing the policy space of the countries by constraining the ability for conducting independent monetary policy and active credit creation towards development projects. Investments in these countries without a reform of the currency union is likely to lead to a mobility transition with a relatively higher amplitude.

## Bibliography

- Aminzade, R., (1984) *Reinterpreting Capitalist Industrialization: A Study of Nineteenth-Century France*, Social History, Vol. 9, No. 3 pp. 329-350
- Akerman, S. (1976), *Theories and methods of migration research*, in From Sweden to America: A history of the migration, Minneapolis, University of Minnesota Press, pp. 19–75.
- Arroyo H. T. (2019), *Using EU aid to address the root causes of migration and refugee flows*, European University Institute
- Baer, W. (1972) *Import Substitution and Industrialization in Latin America: Experiences and Interpretations*, Latin American Research Review, Spring, 1972, Vol. 7, No. 1 (Spring, 1972), pp. 95-122
- Berthélemy, J. M. Beuran, Maurel, M. (2009), *Aid and migration: substitutes or complements?*, World Development, 37(10), 1589–99.
- Bertoli, S., Moraga, J. (2012) *Multilateral resistance to migration*, Journal of Development Economics, 102 (1): 79–100.
- Clemens, Michael A, (2014) *Does development reduce migration?* in Robert E B Lucas, ed., International Handbook on Migration and Economic Development, Cheltenham: Edward Elgar Publishing, pp. 152–185.
- Clemens, M. and Postel, H. (2017), *Deterring Emigration with Foreign Aid: An Overview of Evidence from Low-Income Countries*, GLM|LIC Synthesis Paper No. 8, Institute of Labor Economics
- Charlton, A. (2008) *Capital Market Liberalization and Poverty* in Capital Market Liberalization and Development, Oxford University Press 2008
- Cohen, B. J. (1982) *Balance-of-Payments Financing: Evolution of a Regime*, International Organization, Vol. 36, No. 2, International Regimes (Spring, 1982), pp 457-478, The MIT Press
- Cummins, Neil (2009) *Why did fertility decline?: an analysis of the individual level economics correlates of the nineteenth century fertility transition in England and France*. PhD thesis, The London School of Economics and Political Science (LSE).
- Dao, T. H. (2018) *On the Fundamental Drivers of International Migration*, Bielefeld Graduate School of Economics and Management, Doctoral Thesis.
- de Haas, Hein (2007) *Turning the tide? Why development will not stop migration*, Development and Change, 38(5), 819–41.

- de Haas, H. (2010). *Migration transitions: a theoretical and empirical inquiry into the developmental drivers of international migration*. Oxford: IMI / DEMIG Working Paper No 24, International Migration Institute, University of Oxford.
- Dustmann and Okatenko (2014) *Out-migration, wealth constraints, and the quality of local amenities*, *Journal of Development Economics* 110 (2014) 52–63
- Eichengreen, B. (2008) *Globalizing Capital: A History of the International Monetary System*, Princeton University Press. 2<sup>nd</sup> ed.
- European Commission (2015) “*Commission Decision of 20.10.2015 on the establishment of a European Union Emergency Trust Fund for stability and addressing the root causes of irregular migration and displaced persons in Africa*,” C(2015) 7293 final, Brussels, 20.10.2015 (<https://bit.ly/1NcZ2tD>).
- Faini, R., A. Venturini, (1993) *Trade, aid and migrations: some basic policy issues*, *European Economic Review*, 37 (2), 435–442.
- Fielding, D. (2002) *The Macroeconomics of Monetary Union: An Analysis of the CFA Franc Zone*, Routledge, Taylor & Francis e-Library ed. 2005
- Hatton, T., Williamson, J. (1994), *What drove the mass migrations from Europe in the late nineteenth century?*, *Population and Development Review*, 20(3), 533–59.
- Hatton, T., Williamson, J. (1998) *The Age of Mass Migration: Causes and Economic Impact*. New York: Oxford University Press.
- Hatton, T., Williamson, J. (2003) *Demographic and economic pressure on emigration out of Africa*, *Scandinavian Journal of Economics*, 105(3), 465–86.
- Hatton, T., Williamson J. (2005) *What fundamentals drive world migration?*, in G. Borjas and J. Crisp, *Poverty, International Migration and Asylum*, pp. 15–38.
- Hatton, T., Williamson, J. (2008) *Global Migration and the World Economy: Two Centuries of Policy and Performance*, MIT Press
- Hastings, D. A. (2009) *Filling Gaps in the Human Development Index: Findings from Asia and the Pacific*, MPDD Working Paper Series WP/09/02, United Nations Economic and Social Commission for Asia and the Pacific, ESCAP
- Helleiner, E., (2019) *The life and times of embedded liberalism: legacies and innovations since Bretton Woods*, *Review of International Political Economy*, 26:6, 1112-1135
- Hobsbawm, E. (1975) *The Age of Capital*, published 1997, Abacus
- Horn, J. (2010) *Avoiding Revolution: The French path to industrialization* in “*Reconceptualizing the Industrial Revolution*”, MIT Press
- Irwin, D. A. (1993) *Free Trade and Protection in Nineteenth-Century Britain and France Revisited: A Comment on Nye*, *The Journal of Economic History* Vol. 53, No. 1, pp. 146-152, Cambridge University Press
- Kai, K., Sylla, N. (2019) *Towards a political economy of monetary dependency: The case of the CFA franc in West Africa*, Discussion Paper, No. 19/2, Max Planck Sciences Po Center on Coping with Instability in Market Societies (MaxPo)
- Kentikelenis et. al (2016) *IMF conditionality and development policy space, 1985–2014*, *Review of International Political Economy*, 23:4, 543-582
- Khoudour-Casteras, D. (2005) *International Adjustment under the Classical Gold Standard: The Migration Nexus*, in *Mimeo*, University of California, Berkeley.
- Khoudour-Casteras, D. (2008) *State and labor mobility: The impact of Bismarck's social legislation on German emigration before World War I.*, *Journal of Economic History* 68(1):211-43.

- Khoudour-Castéras, D. (2010) *Unexpected Effects of the Washington Consensus: Trade Liberalization and Migration Flows in Latin America*, *The International Trade Journal*, 24:4, 440-476
- Krugman, P. (1995), *Cycles of Conventional Wisdom on Economic Development*, *International Affairs* (Royal Institute of International Affairs 1944-), Vol. 71, No. 4, Special RIIA 75th Anniversary Issue (Oct., 1995), pp. 717-732, Oxford University Press
- Lundsgaarde, E. (2017) *The European Fund for Sustainable Development: Changing the Game?*, Discussion Paper, Deutsches Institut für Entwicklungspolitik
- Martin, P. L., and Taylor J. E. (1996) *The anatomy of a migration hump*, *Development strategy, employment, and migration: Insights from models*. J.E.e. Taylor, pp. 43-62. Paris: OECD, Development Centre.
- Massey, D. S. (1988) *Economic development and international migration in comparative perspective*, *Population and Development Review*, 14(3), 383-413.
- Massey, D. S. et. al. (1993) *Theories of international migration: A review and appraisal*, *Population and Development Review* 19(3):431-66.
- Mayda, A. M. (2010) *International migration: a panel data analysis of the determinants of bilateral flows*, *Journal of Population Economics*, 23(4), 1249-74.
- Merhling, P. (2016) *The economics of money and banking lecture notes*, Bernard College, Columbia University
- Minsky, H. P. (1982) *Can "It" Happen Again? Essays on Instability and Finance*, M. E. Sharpe.
- Obstfeld, M. et. al. (2003) *The Trilemma in History: Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility*, DNB Staff Reports 2003, No. 94
- Ogden, P. E., White, P. (1989) *Migrants In Modern France*, 1<sup>st</sup> ed., Taylor and Francis Group
- Ortega, F. and Peri G. (2013) *The effect of income and immigration policies on international migration*, *Migration Studies*, 1(1), 47-74.
- Pettis, M. (2001) *The Volatility Machine, Emerging Economies and the Threat of Financial Collapse*, Oxford University Press
- Pettis, M. (2014) *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy*, Princeton University Press; Revised Edition (October 26, 2014)
- Polanyi, K. (1944) *The Great Transformation*, 2<sup>nd</sup> ed., published 2001, Beacon Press
- Qureshi, M. S., Tsangarides, C. (2008) *What Is Fuzzy About Clustering in West Africa?*, in *The CFA franc zone: common currency, uncommon challenges*, International Monetary Fund
- Rodrik, Dani. (2000) *How Far Will International Economic Integration Go?*, *Journal of Economic Perspectives*, Volume 14, Number 1, Winter 2000, pp. 177-186
- Rodrik, D. (2011) *The globalization paradox: why global markets, states, and democracy can't coexist*. Oxford University Press.
- Rodrik (2015) *Premature Deindustrialization*. *Journal of Economic Growth*. 2015;21 :1-33
- Romer D. (2012) *Advanced Macroeconomics*, 4<sup>th</sup> ed., McGraw-Hill
- Ruggie, J. G. (1982) *International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order*, *International Organization*, Vol. 36, No. 2, *International Regimes*, pp 379-415, The MIT Press
- Schmukler, S. (2008) *The Benefits and Risks of Financial Globalization in Capital Market Liberalization and Development*, Oxford University Press 2008

- Stiglitz, J. et al. (2008) *Capital Market Liberalization and Development* in Capital Market Liberalization and Development, Oxford University Press 2008
- Strange, S. (1994) *States and Markets*, 2<sup>nd</sup> ed., Continuum
- Suter, C. (1992) *Debt Cycles in the World Economy: Foreign Loans, Financial Crises, and Debt Settlements, 1820-1990*. Westview Press
- Talani, L. (2015) *International migration: IPE perspectives and the impact of globalisation*, in Handbook of the International Political Economy of Migration, Edward Elgar Publishing
- Thirlwall, A. P. (2003), *Trade, the balance of payments and exchange rate policy in developing countries*, Edward Elgar Publishing
- Todaro, M. (1992), *Book review of: International Migration Systems: A Global Approach* Kritz, M., Lin, L., Zlotnik, H., *Population and Development Review*, Vol. 18, No. 4 pp. 765-766
- Tooze, A. (2004) *The Wages of Destruction: The Making and Breaking of the Nazi Economy*, Allen Lane
- Tooze, A. (2018), *Crashed: How a Decade of Financial Crises Changed the World*, Penguin Books
- Tiryakioğlu, M. (2012) *Learning-Based Technology Transfer Policies and Late Development: The South Korea Experience*, "In Designing Public Procurement Policy in Developing Countries How to Foster Technology Transfer and Industrialization in the Global Economy", Springer Science
- United Nations, Department of Economic and Social Affairs, Population Division (2017). *World Population Prospects: The 2017 Revision, Key Findings and Advance Tables*. ESA/P/WP/248.
- UN DESA (2019) United Nations, Department of Economic and Social Affairs, Population Division, International Migrant Stock 2019 (United Nations database, POP/DB/MIG/Stock/Rev.2019)
- United Nations, Department of Economic and Social Affairs. Population Division (2019).
- Zelinsky, Wilbur (1971) *The hypothesis of the mobility transition*, *Geographical Review*, 61(2), 219–49.
- Vox (2017), last accessed on 14-06-2019; <https://www.vox.com/world/2017/7/10/15949392/macron-women-children-7-or-8-g20-stumble-twitter-storm>
- World Bank National Accounts Data, last accessed on 07-04-2021: <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD>
- Wu, M. (2016), *The "China, Inc." Challenge to Global Trade Governance*, *Harvard International Law Journal*, Volume 57, Number 2, Spring 2016