Worse than expected? Uncertainty and earnings subsequent to return migration

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HIGHLIGHTS

- Studies of the role of uncertainty in international return migration flows are few.
- First evidence provided using linked administrative records from Finland and Sweden.
- Earnings after return migration found strongly related to initial uncertainty.
- Migrants who miss their earnings target abroad have lower earnings than others.
- 10%-25% difference as compared to migrants with expected host country earnings.

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ABSTRACT

Analyses of unique cross-country register data reveal that earnings subsequent to return migration are strongly dependent on uncertainty in the initial migration decision. Migrants who miss their target have 10%-25% lower earnings than those at the expected level.

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1. Introduction

The decision to return migrate might not only be due to an optimal resident location plan over the life cycle, but it can occur also because of mistakes generated by uncertainty in the initial migration decision (Bijwaard, 2004). Imperfect information about the economic conditions faced at the destination can therefore lead to the decision to return migrate (DaVanzo, 1983; Tunali, 2000). Some migrants overestimate, while others underestimate, the net benefits of migration, meaning that they receive either lower or higher earnings abroad than was expected (Allen, 1979; Maier, 1985). Alternatively, they can be considered as participating in a lottery of returns. Migrants might revise their plans if they consider themselves having had bad luck and thus been unsuccessful (Borjas and Bratsberg, 1996), or because they have had good luck and hence had exceeded their initial goal (Dustmann and Weiss, 2007). Both negative and positive labour market shocks might therefore influence subsequent earnings. The uncertainty argument postulates that, within the pool of return migrants, the worse a person has performed in the host country as related to what was expected, the less can be assumed to be gained from the experience abroad. Future earnings might nevertheless be depressed also in the case if a migrant performs notably better than was expected, since the supposed earnings target has then been exceeded and the marginal utility of income is potentially no longer positive.

Earnings subsequent to return migration are therefore expected to vary considerably according to how the migrant succeeded abroad in relation to what was expected. The aim of this article is to study this interrelation. Due to lack of adequate micro data,
studies of the role of uncertainty in international return migration flows are few. This paper provides some first evidence on the issue, facilitated by the use of administrative records from registers that link information on migrants who were observed in the host country as well as in the country of origin both before emigration and after potential return migration.

2. Material and methods

The data used were constructed by integrating information on Finnish immigrants in Sweden from population registers and taxation records in both Sweden (the host country) and Finland (the country of origin). The information was provided by Statistics Sweden (permission number 8547689/181453) and Statistics Finland (permission number TK-52-215-11). Studied are Finns who migrated to Sweden in the period 1988–1998, who all were observed in Finland in the year prior to emigration. Upon arrival in Sweden, the same persons are observed with respect to potential return migration during the period 1988–2003, with a maximum follow-up period in the host country of five years (0–6 calendar years). Half of all the immigrants return migrate within this period of time, whereas only an additional ten per cent return migrate during the subsequent five-year period. People who return migrate are observed in Finland for the subsequent five years unless they repeat migrate before that. All analyses concern adult men. Since all information is from administrative records, there is no selection bias or attrition.

Time of migration is known on a monthly basis, whereas information on personal characteristics refers to each calendar year. Observing the same individuals in two different countries was made possible due to the fact that the population register system and taxation authorities in each country keep track of all residents at a continuous basis. By using each individual’s unique personal identification number, the linkage across countries was fully successful. Since Statistics Finland has a policy of not providing detailed information on complete populations, the data available constitute an 80% sample of all migrants.

Since the focus is on labour migrants, and there is no information about the reason for migration from Finland or about the main activity when having immigrated to Sweden, the data are restricted to men who were aged 25–55 years and in the labour force at the time of migration from Finland. Previous studies on migration between Finland and Sweden find that this is the best approach to avoid including students and other non-labour migrants into the study group of labour migrants (Rooth and Saarela, 2007; Saarela and Rooth, 2012).

Time abroad is with great certainty correctly measured. There are strong incentives to register, because if not registering upon arrival, a person cannot seek accommodation or receive any income from work, nor would he be eligible for any social security benefits. The timing of migration in the Finnish records also corresponds to that in the Swedish records.

Income in both the source country and the host country is for each calendar year, but since the month of migration is known, variables that measure average monthly earnings in the host country, as well as in the source country before migration and subsequent to return migration, can be constructed.

Standard OLS regressions of the Mincer type are run separately for log earnings (A) in the source country before emigration, (B) in the host country when having immigrated, and (C) in the source country after potential return migration. Control variables used are each person’s age in years, age squared, years of education, whether the person has Swedish mother tongue, is married, is parent of a minor child, region of residence, year of migration and, where applicable, time spent in the host country.

Since the focus is on the role of uncertainty on earnings subsequent to return migration the following procedure is applied. The individual-specific residuals from (A) and (B), respectively, are stored and given percentile ranks. If a person’s percentile rank is lower in (B) than in (A) one can suppose that he faced a negative labour market shock, and vice versa a positive labour market shock if the difference in percentile ranks is positive. The difference between these two distributions is used as the variable that reflects uncertainty, and in focus is its effect on earnings subsequent to return migration (C).

This approach is more ambitious than that previously applied by Saarela and Rooth (2012), who use the individual-specific residuals from (B) as proxy values for uncertainty, in order to study how it affects the likelihood of return migration. Those residuals might also capture unobserved heterogeneity, however. Conclusions regarding the probability of return migration are although the same (not shown): migrants with worse-than-expected outcomes in the host country are generally more likely to return migrate than others.

3. Results

Results of the three earnings regressions are summarised in Table 1. Estimated effects of the control variables are very much as expected and will not be discussed at length. Earnings are positively related to length of education, Swedish mother tongue, marriage, and minor children, whereas the modest effects of age are due to the restriction to people aged 25+ years.

Most important, it is evident that earnings subsequent to return migration are strongly dependent on uncertainty in the initial migration decision (column C). People who experienced the hardest negative labour market shock, in terms of being found in the first quintile of the difference in residual ranks between (B) and (A) have 15% lower earnings than those who performed as expected when abroad (found in the third quintile). The negative effect is slightly smaller, or 11% lower earnings, for those in the second quintile, who hence experienced a smaller negative shock. Also migrants who experienced a positive labour market shock, and consequently exceeded their earnings target, have lower earnings subsequent to return migration. People in the fourth quintile of the difference in residual ranks between (B) and (A) have 18%, and those in the fifth quintile 24%, lower earnings than those who hit their expected earnings target.

4. Conclusions

Considering that a large part of all international migration flows is of temporary nature, a proper understanding of the motivations that underlie the decision to return migrate is an important matter when preparing policies. Using unique cross-country register data, this paper shows that earnings subsequent to return migration are strongly dependent on the degree with which migrants have performed as expected in the host country labour market. The role of uncertainty in the initial migration decision is consequently considerable. Migrants who miss their expected earnings target abroad, in terms of having either lower or higher earnings than expected, have 10%–25% lower earnings in the home country subsequent to return migration than those with host country earnings at the expected level. Thus it seems to make little sense talking about a common economic benefit of migrants’ experiences gained abroad. These results might therefore explain some of the equivocal results of previous research in this study area (see e.g. Co et al., 2000; Barrett and O’Connell, 2001; de Coulon and Piracha, 2005; Barrett and Goggins, 2010). An evident avenue for future research is to seek confirmatory evidence from other contexts than the Finland–Sweden migration nexus that was studied here.
Table 1
Results of earnings regressions for time before emigration, when residing in the host country, and subsequent to return migration, respectively.

<table>
<thead>
<tr>
<th></th>
<th>(A) Before emigration</th>
<th>(B) In host country</th>
<th>(C) After return migration</th>
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</thead>
<tbody>
<tr>
<td>Difference in residual ranks (B–A)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1st quintile</td>
<td>−0.151 (0.081)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd quintile</td>
<td>−0.108 (0.079)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd quintile</td>
<td>Reference</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th quintile</td>
<td>−0.178 (0.081)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5th quintile</td>
<td>−0.240 (0.082)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Years of education</td>
<td>0.097 (0.005)</td>
<td>0.125 (0.007)</td>
<td>0.167 (0.009)</td>
</tr>
<tr>
<td>Age in years</td>
<td>−0.016 (0.023)</td>
<td>−0.102 (0.028)</td>
<td>−0.088 (0.043)</td>
</tr>
<tr>
<td>Age in years squared</td>
<td>0.000 (0.000)</td>
<td>0.001 (0.000)</td>
<td>0.001 (0.001)</td>
</tr>
<tr>
<td>Swedish mother tongue</td>
<td>0.126 (0.042)</td>
<td>0.355 (0.042)</td>
<td>0.169 (0.079)</td>
</tr>
<tr>
<td>Married</td>
<td>0.257 (0.038)</td>
<td>0.332 (0.046)</td>
<td>0.462 (0.066)</td>
</tr>
<tr>
<td>Parent of minor child</td>
<td>0.142 (0.037)</td>
<td>0.068 (0.045)</td>
<td>0.203 (0.065)</td>
</tr>
<tr>
<td>Time in host country</td>
<td>0.000 (0.003)</td>
<td>−0.072 (0.025)</td>
<td></td>
</tr>
<tr>
<td>Region of residence (fixed effects)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Migration year (fixed effects)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Intercept</td>
<td>5.331 (0.412)</td>
<td>9.537 (0.495)</td>
<td>6.200 (0.775)</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.218</td>
<td>0.162</td>
<td>0.422</td>
</tr>
<tr>
<td>Number of observations</td>
<td>4,521</td>
<td>4,004</td>
<td>1,787</td>
</tr>
</tbody>
</table>

The estimates are from OLS regressions, with standard errors in parentheses.

Earnings refer to average monthly log earnings in 2005 prices, for (A) and (C) in euro and for (B) in SEK.

References