

Emigrants and Institutions

Xiaoyang Li
University of Michigan

and

John McHale
National University of Ireland

Motivation

- Human capital → Institutional development
 - Lipset (1960)
 - Barro (1999)
 - Glaeser, La Porta, Lopez-de-Silanes, Shleifer (2004)
- Skilled emigration → Institutional development
 - Relatively neglected

Possible reasons for neglect

- Complex dynamic process of (anticipated and actual) emigration and return
- Differential effects on political and economic institutions
- Lack of good data

Our paper

- Eclectic framework
- Availability of new datasets
 - World Bank data on emigrant human capital stocks
 - World Bank governance-indicator measures of the quality of political and economic institutions

Outline

- A multi-channel framework
- Empirical methodology
- Data
- Results
- Conclusions

Theoretical building blocks

- Exit and voice (Hirschman, 1970)
- Number and size of national (Alesina and Spolaore, 1997)
- Institutional Possibility Frontier (Djankov et al., 2003)

Emigrants and Institutions: A Framework

Channels	Effects	
	Political Institutions	Economic Institutions
Absence	<ul style="list-style-type: none"> •Reduced voice for reform •Safety value 	<ul style="list-style-type: none"> •Reduced supply of institution builders •Reduced demand for productivity-supporting institutions
Prospect	<ul style="list-style-type: none"> •Threat of Exit → Bargaining power 	<ul style="list-style-type: none"> •Possibility of exit → Level and mix of human capital investments
Diaspora	<ul style="list-style-type: none"> •“Exiles” → Support for challenges to the institutional status quo 	<ul style="list-style-type: none"> •Diaspora as a resource for institutional development
Return	<ul style="list-style-type: none"> •Disaffected returnees as a source of heterogeneity 	<ul style="list-style-type: none"> •Returnees as a source of creative energy and specialized skills

Empirical methodology

Institutional Quality_i =

β_1 Domestic Human Capital_i +

β_2 Emigrant Human Capital_i +

Controls_i + u_i

Impact of skilled emigration: $\beta_2 - \beta_1$

Complications

- Dynamic effects
- Identification of causal relationships
 - Reverse causality: “Bad” institutions drive “good” people out
 - Omitted variables (income, heterogeneity, . . .)

Strategy

- Lagged values of human capital stocks
- Controls for key determinants of institutional quality
- Geography-based instruments

Data

- Human capital stocks
 - Docquier and Marfouk (2005)
- Measures of institutional quality
 - Kaufmann, Kraay, and Mastruzzi (2008)
- Controls
 - La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1999)

Results (OLS)

	Domestic Human Capital Stock	Emigrant Human Capital Stock	Difference Emigrant - Domestic
Voice & Accountability	1.76*** (0.66)	2.04** (1.01)	0.28 (1.01)
Political Stability	0.50 (0.88)	1.26 (1.15)	0.76 (1.43)
Rule of Law	1.89*** (0.61)	-0.76 (0.81)	-2.65*** (1.00)
Government Effectiveness	1.58*** (0.59)	-1.90** (0.95)	-3.47*** (1.03)
Regulatory Quality	1.29*** (0.49)	-1.57** (0.75)	-2.86*** (0.81)
Control of Corruption	1.99*** (0.74)	-1.55 (1.01)	-3.55*** (1.14)

Standard errors are in parentheses. *** denotes significance at 1-percent level.

** denotes significance at 5-percent level. * denotes significance at 10 percent level.

Results (First-Stage IV)

Dependent Variable = Emigrant Human Capital	
Domestic Human Capital	-0.071 (0.071)
GDP Per Capita	0.001 (0.003)
Island	0.038*** (0.010)
Land Area	-0.006*** (0.002)
Distance to US	-0.036*** (0.006)
Observations	150
R-Square	0.43
F-Statistic	21.54

Results

Second-Stage IV

	Domestic Human Capital Stock	Emigrant Human Capital Stock	Difference Emigrant - Domestic
Voice & Accountability	2.06** (1.03)	5.33*** (1.98)	3.27 (2.07)
Political Stability	0.70 (1.13)	4.04 (2.48)	3.34 (2.56)
Rule of Law	2.01** (0.88)	-0.52 (1.69)	-1.48 (1.76)
Government Effectiveness	1.53* (0.84)	-2.43 (1.63)	-3.96** (1.70)
Regulatory Quality	1.21*** (0.79)	-2.38** (1.53)	--3.60** (1.59)
Control of Corruption	2.12** (0.88)	-0.23 (1.71)	-2.35 (1.78)

Standard errors are in parentheses. *** denotes significance at 1-percent level.

** denotes significance at 5-percent level. * denotes significance at 10 percent level.

Robustness checks

- Dependent variable = Average value of governance indicators 1996 to 2006
- 2000 values for human capital stock
- Use of alternative measures of political institutions (Polity IV)
- Limit to emigrants who left post education

Conclusions

- We confirm the strong association between domestic human capital and the quality of domestic institutions
- Emigrant human capital is associated with higher quality political institutions, but lower quality economic institutions
- On balance, skilled emigration is associated with higher quality political institutions, and lower quality economic institutions
- These results are robust to using a geography-based instrument for emigrant human capital