



## MIGRANT NETWORKS AND MIGRATION POLICY: A “GREASE OR SAND THE WHEEL” RELATIONSHIP?

AUGUSTIN DE COULON\* AND  
DRAGOS RADU\*\*



### Social dynamics in migration choices and attitudes

Two main empirical puzzles challenge recent migration research in economics. First, the observation of large differences in migration behaviour among regions or communities in the absence of corresponding differences in economic fundamentals. Second, the discrepancy between the modest economic impacts of migration and the strong public opposition to increased immigration observed in most receiving countries. In both cases, there is a substantial variation in either individual choices or individual attitudes which remain unaccounted for in standard neoclassical models.

Examples of *prima facie* evidence defying the standard economic theory include, for instance, the absence of migration despite persistent income gaps; or the presence of substantial flows in the absence of, or even in contradiction to, economic discrepancies between origin and destination. Economic explanations of immigration policy attitudes are also often inconsistent with empirical findings which suggest, e.g., that some groups tend to express more positive views on immigration (like Hispanic and black minority members in the US) despite predictions of being precisely the most affected by labour market competition.

New theoretical and empirical approaches try to accommodate such puzzles using models that incorporate social interactions. This means imposing poten-

tial externalities of migration both on the receiving country's population and migrants themselves. Individual decisions depend therefore on the choices made by the members of a reference group and externalities across individuals determine the population-wide behaviour and formation of attitudes. The main assumption therefore is that migration decisions are not taken by an individual in isolation. Using Manski's (2000) classification, they are influenced by the actual or intentional migration choices in one's peer group (endogenous effects) or by the group's specific characteristics (contextual effects).

Historically, there has been little explicit modelling of these types of externalities in migration (migrant networks, peer influences, immigrant clusters, herd behaviour, chain migration). Recent contributions show however – both theoretically (e.g., Epstein 2008; 2010) and empirically (e.g., Epstein and Gang 2006) – that social dynamics have a significant impact on the migrants' decisions when and where to migrate and on their labour market assimilation at destination (Bauer et al. 2005; Munshi 2003).

A recent complementary line of research applies a broader class of externalities to explain individual attitudes towards immigration policy. Recognising that immigration does not only have labour market and fiscal effects but changes also the composition of the local population, Card et al. (2011) look at how concerns about compositional amenities, associated with neighbourhood characteristics, affect the views on immigration. They find these to be substantially more important than economic concerns.

The economic intuition behind these two puzzling relationships (small flows despite large differentials and strong attitudes despite negligible effects) helps to uncover important aspects of the interaction between migration networks and migration policy outcomes. The rest of this article will present some recent evidence on the social dynamics of migration and how these affect migrants' choices and attitudes as well as the impact of migration at origin and destination. We argue first that network effects and social interactions were gradually incorporated in mi-

\* King's College, London and IZA.

\*\* King's College, London and HWWI.

gration models, starting with the traditional Harris-Todaro framework and ending with the dynamic features of search-theoretic models. We then briefly discuss research showing how network effects interact with migration policies beyond the regulation and selection mechanisms. How do networks impact on the labour market outcomes and welfare attitudes of migrants? Do ethnic networks explain some of the observed complementarity in trade and factor flows? Are networks relevant for understanding the consequences of policies towards refugees and asylum seekers? Will the presence of migrant networks lead to different effects of enforcement? Can networks render migration policy intervention ineffective?

### **Social interactions in migration decisions: the traditional view**

In standard economic analysis, migration decisions are explained as the result of an individual cost-benefit calculation: a forward-looking migrant seeks to maximise expected well-being over a time horizon by means of relocation. Individual rational actors decide to migrate if their expected discounted net returns from moving to an alternative international location are positive. The decision is thus possibly affected by both pecuniary and non-pecuniary aspects, and by the likelihood of unemployment (Harris and Todaro 1970). Even this standard human capital model of migration can be augmented by postulating that the migration decision-making entity is not the migrant in isolation (for reviews, see Boyd 1989 and Radu 2008). Migration decisions can be instead the result of a joint process involving the migrant and some group of non-migrants (within families or households). Decisions to migrate are motivated by status comparisons like the individual ranking in the wage distribution at home and in the destination country (de Coulon and Wadsworth 2010). Indian migrants experience, e.g., a significant fall in the wage distribution when they migrate to the UK and the US, compared to what they would achieve had they remained at home. This could explain the relative low migration rate of India-

### **Endogenising migration costs**

A more dynamic perspective on migration, which originated in the mid-1970s, increasingly addressed the structure of information about foreign locations available to prospective migrants. It emphasised the

search process by which migrants acquire information about conditions at destination and about the costs of moving. Using the search process, models in this vein were the first to link the heterogeneity of migration flows to the structure of information networks. Following the “friends and relatives effects” advanced by Greenwood (1969) various mechanisms were consequently proposed for the dissemination of information regarding migrants’ potential destinations (which were originally specified in migrants’ utility functions, i.e. essentially wages and unemployment, but also mean and variance of wages and the demand conditions). Similarly, Carrington, Detragiache and Vishwanath (1996) use a dynamic model in which migration costs endogenously decline with the stock of migrants already settled at destination. This helps explain the timing (with endogenous moving costs migration occurs gradually over time) and the patterns (flows can increase even with simultaneously narrowing income differentials) of migration flows, which could not have been explained in traditional Harris-Todaro models.

Dynamic migration models incorporate basically two rather simple concepts into the economic modelling of migration decisions: that of migration networks and, more generically, that of cumulative causation. The role of migration networks is revealed in the search-theoretic framework as a mechanism for decreasing the costs and risks of migration under imperfect information. The economic counterpart of cumulative causation is introduced by the dynamic search: each step in the search process alters the motivation and information constraints of potential migrants. Realised migrations modify in turn the characteristics in the corresponding locations (in terms of, for example, income, wealth, population, or land distribution).

### **Ethnic networks, trade and capital flows**

Some insights with potentially important political implications for both origin and destination countries result from the observed simultaneous growth in trade, FDI, and migration flows. The concomitant rise in goods and factor flows is in contrast with the predictions of the standard neoclassical theory. Trade theory regards migration and trade as substitutes since both contribute to factor price equalisation. Similarly, capital is expected to flow where labour is abundant and thus to lower the incentive to migrate. There is however plenty of evidence to suggest that migrant networks facilitate in fact bilateral econom-

ic transactions, leading to significant trade creation effects (Gould 1994; Head and Ries 1998; Rauch and Trindade 2002; Peri and Requena 2009) and an increase in bilateral FDI flows from host to home countries of migrants (Javorcik et al. 2011). A large part of the FDI flows to China are handled by the Chinese diaspora (The Economist 2011). The fundamental intuition is that ethnic networks help in reducing the information costs and overcoming contract enforcement difficulties in cross-border transactions. Both the trade-creation effect and the impact of migrant networks on FDI flows have been largely neglected in the debates around migration policy.

In addition, cross-border network ties in migrant communities appear to act as entrepreneurial springboards both in the destination and the home country. Diaspora networks promote the transfer of knowledge and technology, and boost innovation (Naghavi and Strozzi 2011; Agrawal et al. 2011) and investment (Woodruff and Zeneto 2007) in the sending countries.

#### **Enclaves, labour market outcomes and welfare attitudes**

The role of ethnic enclaves and migrant networks for migrants' labour market outcomes, human capital accumulation and welfare persistence in the host country is more difficult to uncover and identify properly. However, substantive evidence suggests that migrants help friends and relatives get jobs in the destination countries. Exogenously larger networks increase the probability of employment in higher paying jobs, e.g., for Mexican migrants in the US (Munshi 2003) or refugees in Denmark (Damm 2009). Job search networks help migrants from a particular group earn higher wages in firms with larger shares of employees from the same ethnic group. Such firms also display higher retention rates for migrants of similar ethnic origin compared to majority workers or workers from other groups (Dustmann et al. 2011). Race, ethnicity and immigrant status of hiring managers affect the racial composition of new hires, and separations are more frequent when workers and managers have dissimilar origins (Åslund et al. 2009; Giuliano et al. 2009).

However, social interactions inside ethnic networks or communities might also have adverse effects on the schooling outcomes of second generation immigrants. Conditional on the schooling system, negative migrant-to-migrant peer effects explain the persis-

tence of educational inequality and the considerable disadvantage of immigrants which is not due to individual heterogeneity (Entorf and Lauk 2008). These ethnic externalities – in the presence of “good or bad” neighbourhoods – have a strong influence on the intergenerational mobility of migrants and ethnic minorities (Borjas 1992; 1995)

Similarly, social networks inside ethnic minority groups can favour the emergence of “welfare cultures” (Bertrand et al. 2000; Bratsberg et al. 2010; Andrén 2007; Riphán 2004). There are two main channels through which migrant networks can influence individual choices towards welfare: through sharing information about welfare provisions inside minority language communities (information channel) and through established social norms inside particular ethnic groups, which in turn determine individual and group attitudes.

#### **Asylum flows and social networks: the reluctant front door**

Despite an ongoing cross-disciplinary debate, social networks have been identified as an important influencing factor throughout the asylum cycle: from the opportunity to migrate, to decisions over routes and destinations, and the adaptation in the host society (Koser 1997; Boswell and Crisp 2004). However, social networks of which refugees are part do not usually consist solely of refugees but incorporate a variety of migrant categories. From this perspective, focusing on networks can shed light on the dynamics of asylum flows which would remain otherwise neglected. It might explain why policies restricting the flow of refugees and asylum seekers account for only a third of the reduced flow observed since 2001 (Hatton 2009). Thus, there is a growing consensus that treating asylum seekers and refugees as a separate case from “voluntary” immigrants is misguided.

#### **Networks and illegal migrants: the rational back door**

More generally, networks can also be part of a process to circumvent restrictive or highly selective migration policies. Moreover, it is highly unlikely that any restrictions can or even rationally intend (Entorf 2002; Hanson 2007) to totally prevent illegal migration. Networks play an important role for the entry and informal employment opportunities of illegal

migrants. The use of informal job networks helps illegal immigrants from Mexico, for example, integrate into the US labour market.

However, in many instances network ties also make a large fraction of irregular migrants more likely to use smugglers. Networks can encourage “debt-financed migration”. Smugglers in the network are sometimes paid only after the successful passage of migrants into the host country has been achieved (Gathman 2008). However, smugglers often tax the migrants’ income earned in the host country in order to recoup their “debt-financed migration” (Friebel and Guriev 2006). In such cases smugglers become human traffickers (UN 2000) as their role goes beyond the help provided for a move across borders.

### Endogenising migration policy: the immigration multiplier

In a very simplified version, migration policies are viewed as regulation mechanisms operating on an exogenously-determined demand for immigration. Migration choices are thus explained by factors which are independent of migration policies. However, starting with the early debate on the “immigration multiplier” (Jasso and Rosenzweig 1989), it has been recognised that networks and the social dynamics of migration flows are important factors for explaining unintended consequences of migration policies. Any change in migration policies can be expected to have behavioural responses over time, the strength of which will be correlated with the presence and intensity of social networks.

Due to the lack of data, there are only limited options to test these implications. Recent changes in migration policies with a “quasi-experimental” character (e.g., regularisation programmes or the EU enlargements) can provide some insights. Elrick and Ciobanu (2009) use such a context to show how networks mediate the impact of migration policies in Spain. While networks help migrants circumvent restrictive policies, depending on their intensity and size, community networks seem to either foster or impede the take-up of permissive policies.

### Conclusions

Social networks provide in many instances a better explanation for the timing, selection and destination

choices of migrants. A “networks lens” can also underscore the limited possibilities to predict the impacts of migration policy changes on migration flows.

The policy implications of this empirical evidence are multilayered and important. They do not concern only the unintended consequences and the limited scope of regulating migration through restrictive policies. The design of any intervention targeting the labour market participation, the take-up of welfare programmes or the schooling performance of ethnic minority members might greatly underestimate the impact of policy shocks if it ignores the social multiplier effects and the human capital externalities arising inside ethnic communities.

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