**Riccardo Faini's Contributions to the Economics of Immigration**

**Remarks by**
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Thank you for inviting me to speak about Riccardo at this conference in his memory. Riccardo was more than a colleague to all of us who know him of us and a dear friend to several of us here. He collaborated closely with Gianni and with Giorgio. He was an early CEPR fellow where he became co-director of the IT programme and participated in several CEPR reports. He was also the anchor and father of the TOM project: without him, it is highly unlikely it would have taken off.

It is befitting that this conference in his memory be held in Venice. He taught at Ca' Foscari. He also organized several conferences here. I still recall vividly a seminar he organized at Ca' Foscari in 1988 inviting colleagues and friends: François Bourguignon, Carlo Carraro, Richard Portes, Alan Winters….then inviting me to co-edit a special issue of Richerche Economiche on Fiscal Issues in Adjustment Lending (was this a premonition of his tenure at the IMF as ED for Italy? ). In 1996, as Director of Research at Luca d'Agliano, he also organized a conference on Trade and Migration here in Venice.

Riccardo had deeply felt interests in policies that he believed would help make the world a better place for all. So it is not surprising that he worked extensively on many aspects of migration. It seemed inevitable to him that international migration would be one of the major challenges of the twenty-first century. Beyond the fall of the iron curtain, he foresaw that lower transaction and communication costs were greatly easing the formation of migrant networks and had reduced migration costs, long a deterrent to migration from developing countries to developed countries. Demographics, not to mention the continuing challenge at assimilating immigrants and foreign ethnic groups in many developed countries, have continued to keep migratory policies near the top of policy agendas in the developed world and especially in European countries, where dependency ratios continue to rise. And with the prospects of climate change as the century unfolds, migration is likely to occupy a top position on the policy agenda for a long time to come.

Many of these themes were evoked at the 1996 conference (see the proceedings in Faini, de Melo, and Zimmermann (1999)). It was Riccardo's conviction that a deeper understanding of the drivers of migration would help us design better policies to deal with migratory pressures. Riccardo foresaw that the Southern and Eastern enlargement of the EU would bring renewed migratory pressures and the need to design policies to help assimilation of migrants in a world of increased labor mobility in the EU. Indeed, it was this conviction that motivated him to take the lead and convene the groups that participated in the TOM project, now coming to fruition.

Riccardo contributed to several themes discussed at the conference. I will mention four: determinants of migration; the inverted-U migration pattern identified by Jeff and Tim for the US; the lack of convergence in income per capita between sending and receiving countries as a source of continued migratory pressures mentioned by Cormac in his discussion of Jeff's presentation; links between trade policies, the real exchange rate and migration. I will conclude on remittances and the brain drain.

Determinants of Migration. With Francesco Daveri, Riccardo formally discussed the link between risk aversion and migration in the presence of financial market imperfections. They built a model of risk with concave mobility costs at the HH level---mobility costs decreasing in the stock of migrants, a precursor of network effects now recognized as so important in the migration decision). Their model also incorporated correlation across income earned in different locations and idiosyncratic tastes for location---many of Riccardo's model brought in heterogeneity in tastes). With taste heterogeneity, corner solutions could be avoided in spite of concave mobility costs. Using data for eight Mezzogiorno regions for the 1970s and 1980s, after controlling for unemployment and wage differentials, they produced evidence of a significant correlation between the location choices of migrants and the necessity of "spatially diversifying" income at the household level in the presence of malfunctioning capital markets (Daveri and Faini (1999)).

Increasing Returns, Migration and Income disparities. As often pointed out in the literature the divide between rich and poor nations has been rising continuously and, as argued by Cormac in his comments at Jeff's presentation, it is likely to keep migratory pressures up. Observing that in spite of increasing factor mobility, convergence across regions was not occurring (especially in Italy), Riccardo developed a two-region growth model with mobile factors (Faini (1996)). His model has strong micro-foundations. Households take their decision choice maximizing utility over two periods with a utility function in which they have a preference for living in their region of birth (the home-market bias for locational choice). The supply side has two sectors, one produced at constant returns to scale and traded internationally at a fixed price and a second sector that produces a non-traded input for the traded sector with increasing returns to scale. While including increasing returns to scale in one sector, this two-sector, two-region model has diminishing returns to the reproducible factor, capital. You will recognize in these building blocs borrowed from his maiden paper (Faini (1984)), the centrifugal and centripetal forces that are the buildings blocs of Krugman's famous geography model. In that rich set-up where factors move regionally but not internationally, he showed that convergence will occur in the absence of labor mobility because of diminishing returns to capital. He then showed that a high degree of labor mobility and strongly increasing returns to scale would likely lead to a pattern of diverging regional growth.

Inverted U-shape migration. The inverted U-shape migration pattern is a central piece of Jeff's and Tim's work on the US where they unveiled an inverted-U on migration from different regions. With Alessandra Venturini, Riccardo also produced a simple model predicting this pattern and provided supporting evidence data for emigration from Southern Europe (Faini and Venturini (1994)). In their model, migratory decisions depend on wage differentials between destination and source regions and on amenities in each region (citizens have a home country bias in their locational preference and amenities enter the utility function as a normal good). Then, unless citizens in source countries face a severe liquidity constraint that prevents them from covering migration costs, with amenities a normal good in the utility function an all-around wage increase that preserves the wage differential between locations will reduce the propensity to migrate. This is so because increasing income for non-liquidity constrained citizens will increase their demand for local amenities, thereby reducing the propensity to emigrate. In their study of the migration experience of Southern Europeans, they found supportive evidence of an inverted U-shape relation between migration rates and income for Southern European countries.

Trade policies, the real exchange rate and remittances. Aware that remittances are responsive to macroeconomic variables, Riccardo built a model of altruistic transfers in which variations in the real exchange rate of the home country had an (ambiguous) effect on remittances (a positive substitution effect as the purchasing power in the home country increases and a negative income effect as the real income has fallen in terms of the host country) (Faini (1993)). Courageously taking the model to macro data (no microeconomic data was available), he gave evidence that aggregate remittances from Moroccans, Portugese, Turks and Tunisians in Germany was responsive to the real exchange rate and to its variation. After controlling for others determinants of remittances he found that the long-run effect of a deprecation of the real exchange rate in terms of the host country good had a positive impact on remittances.

In another contribution with Alessandra Venturini, he raised the possibility that restrictive trade policies in host countries would increase migratory pressures (Faini and Venturini (1993)). Noting that migrants are typically employed in unskilled-intensive sectors like T&A, they argued that restrictive trade policies in these sectors would lead to increased migration as these sectors expand (a pull factor) and reduce expansion of these sectors in developing countries (a positive push factor). Using aggregate data on migration from Southern Europe, they adduced evidence that restrictive trade policies may have increased migration pressures in the past and that supportive aid policies, while benefiting developing countries, may have reduced migration pressures less than expected, especially in relatively poor countries.

<u>Remittances and the Brain Drain</u>. Remittances from migrants to developed countries are now more than twice as important as aid for low-income countries. The general perception is that these remittances should then help to close the developing-country–developed-country divide and contribute to reduce migratory pressures. Yet even if it is generally the case that remittances help reduce poverty, it is not clear how beneficial remittances are in the long-run for

physical and human capital formation. Money is fungible and, short of micro data, it is hard to disentangle causality in any positive correlation between migration and remittances on the one hand and investment on the other. Neither is it settled that moderate migration of the skilled is beneficial to growth through the brain-gain effect.

Riccardo was wary of beneficial effects associated with skilled migration for the sending countries. In his last contribution (Faini (2007)), Riccardo questioned the conventional wisdom that the emigration of high-skill workers leads to relatively higher flows of remittances. Taking inspiration from data showing that skilled migrants stay longer in European countries and have a higher propensity to reunite with close family members in the destination country, he posited an altruistic model in which migrants care more about close relatives than about others to show that a higher skill content of migration will not necessarily bring about an increase in remittances, because of composition effects as reunification with close relatives takes place. As is often the case when testing a micro model with aggregate data, the results were not as sharp as one would wish, but the correlation between the share of skilled migrants and remittance flows is negative so his econometric results suggested that the reunification effect leading to lower remittances might be stronger than the wage effect working in the opposite direction.

Our last encounter was at the December 2006 annual AFD conference in Paris. That year the theme was International Migration and Migration Policies. Riccardo was among the invited speakers at the plenary session where he presented his paper on remittances of the high-skilled. He started in French, and looking at his power-point presentation in English he apologized to the audience that he would proceed in English, then continued his presentation in French with his customary enthusiasm. After the presentation, I asked Riccardo if he had forgotten to switch to English. “I got carried away”, he replied. Riccardo, thank you for your enthusiasm, for your helping hand, and for all your contributions.

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