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## Migration and growth with imperfect capital mobility: The migration wave to Israel of the Early 1990s

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NOTE

MIGRATION AND GROWTH WITH IMPERFECT CAPITAL  
MOBILITY: THE MIGRATION WAVE TO ISRAEL OF THE EARLY 1990s

ODED STARK \*

The purpose of this note is to highlight a causal relationship and elucidate a policy repercussion not alluded to in a recent article by Hercowitz, Kantor and Meridor (1996).

The article deals with the slowdown of migration into Israel from the CIS (former Soviet Union) and discusses the expected effect of borrowing from abroad on future such migration. The purpose of the article is to examine whether and how additional capital is transformed into additional migration. The main variable linking the two is unemployment in Israel or its complement—employment in Israel: capital formation is presumed to reduce migrants' unemployment thereby increasing their income (or expected income).

Why was there unemployment among the migrants? To cite the article (p. 50): "High unemployment among migrants in the first few years is a well-known phenomenon resulting from two main reasons: first, wage rigidity with respect to excess labor supply; and second, the lengthy process of adjusting physical capital to an increase in the labor force. In Israel this process was accentuated by the relatively large magnitude of the migration wave, the institutional rigidity of the labor market, and the paucity of migrants' physical capital. The rise in unemployment presumably weakened the incentive to migrate to Israel."

The approach underlying these remarks is somewhat flawed. A major cause of migrants' unemployment during the initial period of their stay in the country of destination is that their human capital is country-of-origin-specific and hence is not productive in the new host country. Integration in the labor market of the country of destination is affected positively and significantly by the acquisition of country-of-destination-specific human capital. A review pertaining to this issue and evidence bearing on this relationship can be found in Lalonde and Topel (1997). The relevant constraining variable is thus not lack of physical capital but lack of appropriate human capital (the evidence is that among migrants from the CIS the rates of employment in pre-migration occupations were relatively low [Bank of Israel, 1996]). Assimilation in the labor market of the country of destination goes hand in hand with a rise in the country-of-destination-specific human capital.

Hence, a possible efficient use of capital raised abroad is not *physical capital formation* but *human capital conversion*. Use of capital raised abroad to endow potential migrants with human capital specific to Israel while they are still in the CIS (for example, teaching them Hebrew), or doing so upon their arrival in Israel, will enhance their employability in Israel.

A model that incorporates this consideration and includes properly specified human capital will better depict the likely underlying relationship between capital raised abroad and the employment of migrants in Israel. Consequently, the ability to predict migration will improve as well.

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## REFERENCES

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