

Wage Inequality and Human Capital Formation

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Abstract

We investigate the effects of wage inequality between skilled and unskilled workers on human capital formation in a home country and their incentive for emigration when some of the workers in the home country can be accepted in a foreign country. Unlike the previous analyses on brain drain and brain gain, we pay attention to the fact that resources for human capital formation, such as education, are not necessarily supplied elastically and free. To take this fact into account, we include a resource market, i.e. the education market and consider transactions of education explicitly. We show that both skilled and unskilled workers in the home country always attempt to migrate even if they are less likely to be accepted in the foreign country. We also show that brain gain and brain drain take place simultaneously in the home country. In particular, if wage inequality is larger in the foreign country than in the home country, skilled workers in the home country experience brain gain, whereas unskilled workers in the home country experience brain drain. In contrast, if wage inequality is larger in the home country, skilled workers experience brain drain, whereas unskilled workers experience brain gain. Our results suggest that the effects of migration possibilities on human capital formation of different types of workers are affected by differences in wage inequality between the home and foreign countries and that the home country's future wage inequality might be affected by the host country's present wage inequality.

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