

# The New Economics of Labour Migration and the Role of Remittances in the Migration Process

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## ABSTRACT

In 1995, international migrant remittances exceeded US\$70 billion. How have these remittances shaped development in migrant sending areas?

Pessimistic views on migration and development pervade the literature. In contrast, the new economics of labour migration (NELM) argues that migration may set in motion a development dynamic, lessening production and investment constraints faced by households in imperfect market environments and creating income growth linkages.

This article assesses the development potential of remittances from a NELM perspective and cites empirical evidence that remittances may be a positive factor in economic development.

Governments in migrant origin countries may increase the development potential of remittances through a variety of economic policies. Creating a fertile ground for remittances to contribute to broad based income growth in migrant sending areas is a key to promoting development from migration.

## INTRODUCTION

The interactions among migration, remittances, and development have been a controversial topic among researchers and policy makers. For many years, researchers analysed the determinants of migration independent of migration's impacts, and vice versa. The best-known economic model of migration decisions (Todaro, 1969; Harris and Todaro, 1970) has no place for income remittances from migrants to their areas of origin. Most research on the impacts

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of remittances on migrant sending economies does not include a model of what determines migration in the first place. This is unfortunate, because the factors influencing international migration decisions also are likely to shape the outcomes of international migration and remittances, both in the migrant host country and in the regions from which migrants come.

The range of migration-and-remittance impacts is bracketed by two extremes, each with its own set of assumptions about what drives migration and how remittances and/or migration affect migrant sending areas.

The first can be characterized as the “developmentalist” extreme, associated with the new economics of labour migration (NELM). It argues that: (1) migration decisions are part of family strategies to raise income, obtain funds to invest in new activities, and insure against income and production risks; and (2) remittances, or in some cases simply the potential for remittances, consequently set in motion a development dynamic by loosening production and investment constraints faced by households in poor developing country environments.

The second extreme might be called the “Dutch disease” or “migrant syndrome” (Reichert) perspective. It argues that lucrative migration activities drain migrant sending areas of their labour and capital, crowding out local production of tradable goods. Because migration is a self-perpetuating process (Massey et al., 1998), over time, villages, regions, and in a few cases even countries, come to specialize in migration (i.e., the exportation of labour), serving as nurseries and nursing homes for their largely migrant workforces.

The reality clearly lies somewhere in between these two extremes. The important question is where. Three theoretical and methodological problems pervade the migration-and-development literature and make it difficult to uncover where in the spectrum the true interactions between international migration, remittances, and development lie.

First, most migration research has viewed migrants in isolation of the family and community contexts from which they come, and most empirical research on migration impacts has utilized remittance use surveys, which assume a naïve model of how remittances influence the expenditures of remittance receiving households. A whole-household economy approach and, in some cases, a community focus are essential to examine how migrant remittances affect investment and consumption expenditures by migrant sending households and how these remittance effects reflect migration determinants.

Second, migration and remittances may reshape migrant sending economies through indirect channels that are missed by traditional research approaches. Many of migration’s most important impacts may not be found in the

households that send migrants abroad and receive remittances. High levels of consumption (as opposed to investment) spending by remittance receiving households may result in positive impacts of remittances on productive investment in migrant sending areas, provided that this consumption demand triggers investments by other households or by firms.

Third, the true determinants and impacts of migration and remittances on development differ across locales. They are influenced in important ways by migrants' remittance behaviour and by the environmental (e.g., resource endowments) market, and economic policy contexts in which migration decisions are taken and into which migrant remittances subsequently flow. Where migrant sending economies (e.g., villages) are closely integrated with larger (e.g., regional) markets, the economic impacts of remittances, even if they are significant, tend to become diffuse and difficult to quantify. The fundamental question is not whether remittances do or do not promote economic development, but rather, why international migration appears to be associated with positive development outcomes in some migrant sending areas but not in others.

Overshadowing all three of these issues is the larger question of what constitutes "development" and, in particular, what benchmarks for development one should use when assessing the economic impacts of migrant remittances. A frequently used benchmark is whether migrant sending economies become more or less dependent upon migrant remittances over time; that is, do migrant remittances set in motion self-sustaining growth in migrant sending areas? The use of this criterion in migration studies is peculiar; we do not ask the same question when assessing economic welfare in developed country communities (e.g., American suburbs) whose economic mainstay is supplying labour to outside markets (e.g., urban centres). Nor do we ask whether other kinds of exports enable countries or regions eventually to wean themselves from trade. In an era of increasing market integration, both within and among countries, such questions, indeed, would appear strange.

The impacts of migration and remittances should be assessed relative to what migrant sending economies would have looked like without migration. Such an assessment, by necessity, requires the use of hypotheticals. Simply comparing economic outcomes in households or regions with and without migrants generally is not appropriate, because households and individuals (and through them, entire regions) select themselves into and out of migration through an endogenous process. Factors influencing migration decisions subsequently shape the impacts of migration and remittances upon households and regions.

In general, in the medium if not the short run, the alternative to participating in international migration often is not to stay home, but rather, to migrate somewhere else, within the country of origin. The shifting of population and

labour forces out of rural areas is perhaps the most pervasive demographic correlate of economic growth; as average per capita incomes increase, the share of countries' populations living in rural areas and working in farm jobs falls precipitously. The percentage of country populations living in rural areas typically exceeds 50 per cent in the lowest income countries and bottoms out at around 15 per cent in the highest income countries. The percentages of nations' workforces employed in agriculture are as high as 95 per cent in the lowest income countries, bottoming out at around 3 per cent in the highest income countries. Few countries in the world deviate in any appreciable way from these demographic and occupational migration paths (Taylor and Martin, 1998).

Finally, assessing development impacts requires the choice of a welfare function, for which there are many candidates. The most commonly used yardsticks to assess development outcomes of emigration and remittances include income growth, inequality, and poverty alleviation. Each of these criteria is associated with different facets of migration impacts, which often have little to do with one another. For example, income growth in migrant sending areas may be associated with more or less income inequality. Rising income inequality may be associated with more or less poverty, and vice versa. The incidence of poverty may increase as average incomes rise. Because of these ambiguities, a combination of measurement tools is required to obtain a comprehensive picture of how migration and remittances reshape migrant sending economies.

## MIGRATION AND DEVELOPMENT

### **Migrants, households, and communities**

Until recently, economics research focused on migrants as individual decision makers and on the indirect effects of emigration through labour markets, rather than on migration, remittances, and their impacts within the context of the families and communities that produce migration. Such a focus provides little if any insight into the rationale for remitting, the impacts of remittances on migrant sending areas, or the interactions between migration's determinants and impacts.

### **Lost labour and capital effects**

In most migration models, from the one implicit in Lewis (1954) to Todaro (1969) and Harris and Todaro (1970), migration decisions are carried out by individuals and shaped by known or expected income differences between migrant origins and destinations. Migrants move from countries where their earnings or expected earnings are low to those where their

earnings or expected earnings are high (e.g., Todaro and Maruzco, 1987). International labour migration represents a loss of human resources for migrant sending areas. If there is surplus labour in the sending area (Lewis, 1954), this labour loss has zero opportunity cost. That is, the migrant sending economy can sacrifice workers to migration without suffering a loss in production. If there are labour shortages in the migrant sending economy, however (including seasonal ones), those who migrate would have made a positive contribution to production at the place of origin if they had not migrated. In addition, if those who migrate take capital (human or financial) with them, the capital stock in migrant sending areas declines, reducing the productivity of other, complementary inputs, including labour (Johnson, 1967; Berry and Soligo, 1969; Rivera-Batiz, 1982). The loss of labour cum capital through migration may inhibit economic growth in migrant sending economies. Lost-labour effects of migration are difficult to quantify, and the theoretical research in this area has not been tested with reliable empirical research (a review of this research appears in Taylor et al., 1996a and 1996b).

## MIGRANT REMITTANCES

Migrant remittances represent the largest direct positive impact of migration on migrant sending areas. If one considers labour as an export, then remittances are the part of the payment for exporting labour services that returns to the country of origin. Estimation of international migrant remittance flows is complicated by the fact that an unknown but probably large share of remittances is not channelled through formal banking systems. Micro-level field studies indicate that clandestine or in-kind transfers are substantial (Lozano Ascencio, 1993; Massey and Parrado, 1994); however, remittance studies generally do not attempt to put a value on in-kind remittances.

The International Monetary Fund separates remittances into three distinct categories in its Balance of Payments Statistical Yearbook:

- Worker remittances, or the value of monetary transfers sent home from workers abroad for more than one year.
- Compensation of employees (previously labour income), the gross earnings of foreigners residing abroad for fewer than 12 months, including the value of in-kind benefits such as housing and payroll taxes.
- Migrant transfers, the net worth of migrants who move from one country to another (for example, the value of IBM stock owned by a migrant who moves from France to Germany gets transferred in international accounting from France to Germany).

Total world remittance credits – the sum of workers remittances, compensation of employees, and migrant transfers – increased from less than \$2 billion in 1970 to \$70 billion in 1995. Between 1970 and 1995, the cumulative sum of remittances, compensation of employees, and transfers was almost \$1 trillion. Almost two-thirds of total remittances over the past 15 years were worker remittances, 25 per cent were compensation of employees and almost 10 per cent were migrant transfers. Some labour exporting countries report the money transferred home as workers remittances; others report it as compensation of employees. For example, Mexico reported \$3.7 billion in workers' remittances in 1994 and only \$650 million in compensation of employees, even though many Mexican migrants were abroad fewer than 12 months. At the other extreme, the Philippines reported only \$440 million in workers' remittances and \$3 billion in compensation of employees, even though many migrants from the Philippines were abroad more than 12 months. In light of these discrepancies, it is probably best to combine workers remittances and compensation of employees to assess remittance trends.

The world distribution of migrant remittances is unequal. Combining workers' remittances and compensation of employees, France received more from its residents abroad than any other country in 1994, largely because it received \$3.7 billion in compensation of employees. The top five countries in combined remittances – France, Mexico, Portugal, Egypt, and the Philippines – accounted for about one-third of the world total in 1994, and the top 10 – these five plus Greece, Turkey, Italy, Brazil, and Pakistan – accounted for almost half the total.

One way to assess the importance of remittances to migrant sending economies is to look at the ratio of remittances to merchandise exports and at remittances per capita. In 1994, island places were most likely to have remittances exceed exports (e.g., by 16 to 1 in Cape Verde). Workers remittances and compensation of employees combined were highest on a per capita basis in New Zealand, \$411, followed by Portugal, \$407, and St. Kitts, \$385. In 1994, workers remittances and compensation of employees combined were equivalent to more than 100 per cent of merchandise exports from the Dominican Republic, over 75 per cent of merchandise exports from Egypt, El Salvador and Jordan, more than 50 per cent of merchandise exports in Yemen and Greece, and 25 per cent or more of merchandise exports in Bangladesh, the Philippines and Pakistan. In Turkey and Mexico, total remittances were equivalent to 14 and 12 per cent of merchandise exports in 1994.

Total remittances have generally not declined as migration streams “matured”. In some cases, emigration continues, as from Mexico, Turkey, and Egypt. The willingness of migrants to remit depends, in part, on economic and savings policies in the host and home countries, exchange rate and risk factors, and the availability and efficiency of transfer facilities. In some emigration

countries, changed economic policies encouraged migrants to send home more remittances; in other cases, simply making it easier or cheaper to send money home and rising immigrant earnings have increased and/or sustained remittances.

Migrant remittances may reduce or reverse the negative lost-labour-and-capital effects of migration in two ways. First, through remittances, migrants may directly contribute to income in migrant sending areas, provided that the size of remittances exceeds the value of production lost as a result of emigration. Djajic (1986), in one of the few theoretical economic models that consider remittance effects, concluded that nonmigrants benefit from emigration, even if they do not receive any of the remittances themselves, provided that the magnitude of migrants' remittances exceeds a critical threshold roughly equal to the value of the production they would have produced had they stayed behind. Production in migrant sending areas, however, falls in his model, as a result of labour and capital lost to emigration.

Second, remittances may increase income and stimulate production in migrant sending areas indirectly, by enabling economic agents in migrant sending areas to overcome capital and other (e.g., risk) constraints on production activities (Stark, 1980, 1982; Stark and Bloom, 1985). Migration may positively influence production in migrant sending areas by providing households and firms with scarce capital and by providing national economies with scarce savings and foreign exchange. Some countries have used their access to migrant transfers as a leverage to obtain foreign loans. Migrants may serve as insurance policies against risks associated with new production activities or technologies in migrant sending households, by promising to remit if remittances are needed. The importance of migration's indirect effects on production depends on the extent to which risk and a lack of capital constrain production in the first place. If economic agents in migrant sending areas do not face strong capital, risk, or foreign exchange constraints, then the indirect effects of migration on household income will be minimal (and, as a result, the family will have less incentive to engage in migration). If credit, risk, or foreign exchange constraints are binding, however, families and nations may have a strong incentive to send migrants abroad, and the subsequent indirect effects on incomes may be large. The size and direction of the net effects of remittances on incomes and production in migrant sending areas cannot be determined a priori. However, a number of micro-level studies offer empirical evidence in support of the "new economics of labour migration (NELM)" view that the net impact of remittances on local income generation is positive.

### **"Macro" economy-wide effects of migrant remittances**

If migrant remittances contribute positively to incomes, they may have a multiplier effect on incomes, employment, and production in migrant sending

economies. Households and firms are linked together through markets. Expenditure linkages transmit the impacts of remittances from the remittance receiving households to other households and production firms in the economy.

Economy-wide modelling techniques can be used to trace how remittances influence income and production as they work their way through the migrant sending economy. Unfortunately, with a few exceptions, such models have not made their way into the migration-and-development literature, at least at the macro level. The few studies that employ economy-wide modelling techniques to study remittance impacts generally produce optimistic findings. For example, Adelman and Taylor (1990) found that, for every dollar sent or brought into Mexico by migrants working abroad, Mexico's gross national product (GNP) increased by somewhere between \$2.69 and \$3.17, depending on which household group in Mexico received the remittances. Remittances produced the largest income multipliers when they flowed into rural households, whose consumption and expenditure patterns favour goods produced domestically, with relatively labour-intensive production technologies and few imports. When migrant remittances go to urban households, more of the money leaks out of the country in the form of import demand. These estimates also reveal that migrant remittances have an equalizing effect on the distribution of income among socioeconomic groups in Mexico. In the first instance, they favour relatively poor and middle-income rural and urban families. In the second instance, they create second-round income linkages that also favour the poor. As a result, \$1 in remittances translates into a \$0.29 to \$0.38 increase in small-farmer and rural-worker incomes and a \$1.11 increase in the income of urban worker households, despite the fact that most remittances do not flow into the latter group. In other words, *many of the benefits of remittances accrue to households other than the ones that receive the remittances.*

Economy-wide modelling studies from other countries echo these findings. They include studies from Pakistan (Burney, 1989), South Korea (Kim, 1983 and 1986; Ro and Seo, 1988; Hyun 1984), Bangladesh, (Habib, 1985; Ali, 1981; Mahmud, 1989; Stahl and Habib, 1991), and Sri Lanka (Rodrigo and Jaytissa, 1989). Kim (1983, 1986) found that between 3 per cent and 7 per cent of 1976- 81 GNP growth in South Korea was attributable, directly or indirectly, to migrant remittances, and Ro and Seo (1988) set the figure at a remarkable 33 per cent in 1982. A Rand Corporation study (Asch, 1994) of the effects of emigration on the Philippines, Ireland, Dominican Republic, and Mexico concluded that "on net, emigration has a positive effect on the sending country". The study found that emigration relieves unemployment and may raise the wages of workers who remain behind. Remittances are spent primarily on current consumption, but the multiplier effects of such spending expand demand and create jobs. Finally, returning migrants become productive after about six months of unemployment. Thus, "policies restricting emigration would not have a beneficial effect" (p. xvii).



In general, studies from Asia offer more positive assessments of emigration's role in promoting development than studies from other regions. This is probably due to three factors. First, studies in Asia have endeavoured more to measure and assess the indirect effects of remittances, rather than focusing solely on direct effects, i.e., the remittances, themselves. Second, many Asian countries – notably Korea, Thailand, and Indonesia – have implemented macro-economic policies favourable to market development, yielding economic contexts more conducive to productive investment, and they have incorporated labour migration directly into their macro-economic planning without regarding labour exports as a panacea for development. Finally, several Asian governments have implemented specific policies to encourage the repatriation of foreign earnings and capture remittances for development purposes (Athukorala, 1993).

The Republic of Korea, for example, instituted a requirement that migrants remit 80 per cent of their earnings through the state bank, while the Philippines required migrants to repatriate 50 to 70 per cent of their earnings in this fashion (Shah and Arnold, 1986). Sri Lanka, Bangladesh, Pakistan, and India each have established foreign currency accounts in state banks (denominated in US dollars or pounds sterling) that pay above-market interest rates and convert into local currencies at premium rates (Shah and Arnold, 1986). Indonesia plans to increase the number of Indonesians working abroad from the current 1.2 million to two million by the year 2000, when they are expected to remit \$12 billion annually. Indonesia would like its migrants to repatriate at least \$500 per month, which implies that more skilled workers and professionals and fewer maids will be sent abroad. It has upgraded some of its vocational schools to train workers for foreign labour markets (*Migration News*, 2(12), 1995). The Philippines would also like to upgrade the skills of the migrant workers that it sends abroad, both to increase remittances and to prevent exploitation. There are about 25 million Filipinos employed in the Philippines and two to four million employed abroad.<sup>1</sup>

### MIGRATION AND REMITTANCES: IMPACTS ON LOCAL ECONOMIES

Large flows of migrant earnings into migrant sending areas have inspired researchers to carry out surveys to quantify remittances and their uses. Remittance-use studies focus on how migrant remittances and savings are actually spent. To an economist, this is the wrong question to ask. Households' expenditures on goods and services, including investments, are shaped by their present or future consumption preferences, and they are limited or constrained by household budgets. Migrant remittances influence these expenditures by increasing the family budget. This increases the household's demand for "normal" goods (i.e., manufactured goods whose demand increases when

incomes rise), while decreasing their demand for “inferior” goods (e.g., staples whose demand decreases beyond some income level). Market linkages transmit the impacts of remittances from the households receiving them to others in the local, regional, or national economy. These direct and indirect income effects of remittances potentially have important influences on production, income inequality, and poverty.

### **Remittance use**

Remittance use surveys do not provide information on remittances’ contribution to total household income and how expenditures change as a result. Migration is assumed to have a positive effect on economic development if respondents report spending a large share of their actual remittance income on “productive investments”. The validity of this approach rests on three shaky assumptions: (1) that observed remittances (net of migration costs) represent migration’s true contribution to household-farm income; (2) that the use of the remittances, themselves, accurately reflects the impact of remittances on migrant-household expenditures; and (3) that the same families and, in some cases, the same individuals, must be both the source of migration and the agents for transforming migrant earnings into local income growth.

Evidence that migration and remittances affect income from other sources (e.g., local production), as predicted by the new economics of labour migration, casts doubt on the first assumption (see NELM, below). The second assumption is not reasonable unless remittance checks are earmarked for specific uses and can be treated as separate from other family income sources – that is, unless income is not fungible. The third assumption requires that the same household be the agent in both migration and investment. In real life, migrant households may specialize in migration and provide credit for other villagers who are primarily responsible for carrying out local investments and production. They also may provide a market for locally produced goods and services through their consumption expenditures, increasing incomes in the households that supply these goods and services. The latter households may have a high propensity to spend their income gains on productive investment. In short, an important channel through which remittances stimulate productive investments may, paradoxically, be through migrant-households’ consumption spending.

Most remittance-use studies conclude that remittances are consumed instead of invested<sup>2</sup> and thus are not put to productive uses in migrant sending areas (for reviews, see Taylor et al., 1996b; Durand and Massey, 1992; and Papademetriou and Martin, 1991). This conclusion often rests on arbitrary definitions of “productive investments”. For example, schooling often is absent from the list of productive investments. This probably is because expenditures on educating family members usually do not create direct, immediate

employment and income linkages within migrant sending economies. Housing expenditures also are off the list of productive investments in many studies, despite their potentially important effects on family health and their direct stimulus to village construction activities. By contrast, expenditures on farm machinery generally are regarded as productive investments, in spite of the fact that machinery is not produced within the village economy and may even displace labour in village production and produce negative income linkages.

The pessimism emanating from many remittance-use studies may be unwarranted. Virtually all such studies report some productive spending, which at times can reach significant levels. In their review of studies carried out in Mexico, for example, Durand and Massey (1992) found that the relative share of remittances spent on production, although always under 50 per cent, fluctuated considerably from place to place and often reached substantial levels. Remittances enabled many communities to overcome capital constraints to finance public works projects such as parks, churches, schools, electrification, road construction, and sewers (Reichert, 1981; Massey et al., 1987; Goldring, 1990).

Other studies report that remittances have been critical to the capitalization of migrant-owned businesses. Escobar and Martinez (1990), for example, found that 31 per cent of migrants surveyed in Guadalajara used US savings to set up a business. Massey et al. (1987), in their survey of the same city, put the figure at 21 per cent; and in a survey of businesses located in three rural Mexican communities, Cornelius (1990) found that 61 per cent were founded with US earnings. A number of studies from other world regions echo these findings. (For a detailed review, see Taylor, et al., 1996.)

Under the right circumstances, then, a significant percentage of migrant remittances and savings may be devoted to productive enterprises. Rather than concluding that migration inevitably leads to dependency and a lack of development, it is more appropriate to ask why productive investment occurs in some communities and not in others. Durand and Massey (1992:27) conclude that, in Mexico, “the highest levels of business formation and investment occur in urban communities, rural communities with access to urban markets, or rural communities with favourable agricultural conditions”.

Often, the factors encouraging people to migrate also limit the productive potential of migrant remittances. Poor public services and infrastructure seriously limit the potential for remittances to contribute to local production. Most migrant sending communities are rural villages distant from natural markets and lacking basic infrastructure such as paved roads, electricity, running water, sewage, and telephones. Many are characterized by poor quality land, a fragmented tenure system and unequal land distribution. It is unrealistic to expect migration to promote development where complementary infrastructure, services, and ecological conditions are so unfavourable

(Durand and Massey, 1992, and Grindle, 1988). As Georges (1990:170) put it, people migrate “because of the lack of meaningful development in the first place. In the absence of policies designed to channel migrants’ savings into productive investment, it is naive to expect migrants to behave very differently.”

Because of a lack of well-functioning factor markets (most notably, rural credit markets), migrants and their families often end up serving as both the procurers of migrant savings and the intermediaries between migration and development. To expect migrants to be proficient at turning savings into production is unrealistic. Migration is likely to have a larger effect on development where local institutions exist to gather savings by migrant households and make them available to local producers – that is, where migrants do not have to play the simultaneous roles of workers, savers, investors, and producers. Van Dijk (1978:9) notes that migrants are “not indisputably the most appropriate agents for contending ... with underdevelopment”. Stahl and Habib (1991:177) point out:

If certain conditions exist, for example, that a country’s economic structure is relatively diverse, that it has an adequate supply of labour, and that there is a financial system capable of mopping up small amounts of savings from a wide variety of sources and channelling them to businesses willing and able to respond to a rising demand for their output, then remittances will promote economic growth as should any other external stimulus to the economy. In the absence of these conditions, neither remittances nor any other stimulus will be of much value to ... development.

The complex interactions between migration and development lie outside the purview of remittance-use studies. Findings from remittance-use studies, whether optimistic or pessimistic, simply do not constitute a test for the wide range of effects that remittances may have on economic behaviour and outcomes within families and communities. Testing for such influences requires assessing how remittances influence the propensity of families to invest, not a description of how the remittances themselves were spent. Understanding the complex relationship between migration and development requires new theories about the multiple ways in which remittances interact with and influence the economic status of households and communities.

### **Local remittance impacts and the new economics of labour migration (NELM)**

In the NELM, migration is hypothesized to be partly an effort by households to overcome market failures that constrain local production. Market failures include missing or imperfect credit and insurance markets, which force household farms to self finance their production and to self-insure against income risk. Migrants provide their households with liquidity, in the form of remittances, which

may be used to finance new production technologies, inputs and activities. They also offer income insurance, by providing households with access to an income source (migrant remittances) that is not correlated – or perhaps negatively correlated – with farm income. NELM theory leads to specific hypotheses about migrants' motivations to remit, as well as the impacts of remittances on migrant sending economies.

### **Migrants' remittance behaviour**

Migrant remittances depend both on the migrant's earnings and willingness and motivation to share part of these earnings with his/her household of origin. Studies in host countries, particularly the US, demonstrate that immigrants' mobility and earnings increase over time (Chiswick, 1978), although the economic success of immigrants varies significantly by nationality, socioeconomic characteristics, and cohort (Borjas, 1985) and by immigrants' legal status (Taylor, 1992b).

Very few studies have attempted to estimate effects of immigrant earnings on remittances, largely because of data limitations. Surveys of migrant sending households can provide information on remittances (reported by the household), but it is difficult to obtain reliable information on migrant earnings from surveys carried out at the sending end. An exception is Lucas and Stark (1985), who estimated that remittances to Botswana households rise steadily with the earnings of the absentee: a one per cent increase in the absentee's wage, other things being equal, was associated with increases in remittances of 0.25 per cent (at low wage levels) to 0.73 per cent (at high wage levels).

Motives for remitting include pure altruism (immigrants care for those left behind), pure self interest (migrants' aspiration to inherit, desire to invest in the migrant sending area and make sure their investments are taken care of by those left behind), and NELM motives (migrants and their households of origin are bound together by mutually beneficial, informal contracts, including an agreement to provide income insurance to one another). Controlling for migrant earnings, Lucas and Stark (1985) found that, in Botswana, migrants send significantly more remittances to families that are at risk of temporary income loss as a result of a drought. They reject a "pure altruism" model of remittance behaviour, while finding evidence of an inheritance motive to remit. Echoing Lucas and Stark, Hoddinott (1994) found evidence from west Kenya that wealthier parents, who can offer a greater (inheritance) reward for remittances, extracted a larger share of migrant earnings through remittances.

As the participation by females in international migration increases, the effect of gender on remittances should become an increasingly important research topic. Unfortunately, little formal economic analysis of the role of gender in shaping international migrant remittances has been carried out to date. A few

remittance studies control for gender, but no clear pattern emerges from them. For example, Lucas and Stark (1985) find that remittances are higher for females than for males, while Taylor (1987) reports no significant difference between male and female remittance behaviour except in older age groups, for which remittances are significantly lower for females. Massey and Parrado (1994) report that female Mexico to US migrants remit significantly less than males.

### **NELM and the impacts of remittances on migrant sending economies**

If credit and risk constraints are severe and migration enables families with migrants to overcome them, migration and remittances should have a positive effect on local production.

Lucas (1985) found that migration from five southern African countries to South African mines produced lost-labour effects that initially reduced production in the migrant sending areas. In the long run, however, agricultural productivity increased. Adams (1991) found that households of rural Egyptian migrants had higher marginal propensities to invest than their nonmigrant counterparts. However, policy biases against agriculture, in the form of depressed prices for farm output, discouraged agricultural investments. Taylor (1992a) reported that the effect of migration on household-farm production in rural Mexico initially was negative. As a result, a \$1 increase in migrant remittances produced a less than \$1 increase in the total incomes of remittance receiving households. Six years later, however, the marginal impact of remittances on income from local production was significant and positive: a \$1 increase in remittances was associated with an increase in total income of \$1.85 in the migrant sending households. Just as the new economics of migration theory would predict, the marginal income effect of remittances was greatest in the most liquidity-constrained households (Taylor and Wyatt, 1996). Other studies, including Stark and Rosenzweig (1989), offer empirical findings in support of the NELM hypothesis that migration is partly a family response to income risk, with migrants playing the role of an income insurance policy for their households of origin.

The NELM represents a fundamental change in the way the connection between migration and development is conceptualized and modelled. Previous research separated the determinants of migration from the impacts of migration on sending areas. In the new economics of migration, the origins of migration (e.g., households' desire to overcome missing or incomplete capital and risk markets that constrain local production) imply certain outcomes of migration for development (e.g., a positive effect on local production, as remittances and implicit risk contracts with family migrants enable households to overcome credit and risk constraints). This view leads to migration and development

hypotheses that are beyond the purview of traditional migration models, and it has provided the inspiration for new surveys to collect data to test these hypotheses. NELM-inspired surveys gather data on all aspects of household-farm production and income, because potential correlations between migration and other income sources generally make it impossible to model migration and other aspects of household-farm economies separately. That is, they are whole household-farm surveys (Taylor and Adelman, 1996).

### **Micro economy-wide effects**

Local impacts of migration – both positive and negative – are shaped not only by the size, distribution, and influence of remittances on incomes in migrant receiving households, but also by the extent to which the impacts of migration are transmitted beyond migrant households into the local economy. Linkages between migrant and nonmigrant households vary across regions and countries and must be estimated. Two extremes are possible.

At one extreme, migrant households may act as enclaves, supplying few inputs and demanding few goods from other households in the local economy. In this case, migration and remittances would influence demand and possibly production in the migrant households, but they would have little impact, positive or negative, on the incomes of other (including nonimmigrant) households within the local economy (e.g., the migrant sending village or region).

At the other extreme, migrant households may be closely integrated with local product and factor markets, supplying inputs to local production and demanding locally produced nontradables. In this case, changes in migration and remittances may affect local prices, production, and incomes, including in nonmigrant households.

A number of studies utilizing micro economy-wide modelling techniques explore the role of migration and the impacts of economic integration policies on incomes, employment, and expenditures in migrant sending regions (e.g., Taylor and Zabin, 1996; Taylor and Adelman, 1996; Taylor, 1995; Adelman, Taylor, and Vogel, 1988). Findings from these studies point to three broad conclusions regarding impacts of migration and remittances in migrant sending regions.

First, migrant remittances create income and employment multipliers in migrant sending villages and towns, and the size of these multipliers potentially is large. For example, a \$100 increase in remittances from the US led to a \$1.78 increase in total income in a migrant sending village in Mexico (Adelman, et al., 1988). Village-wide economic models, although not usually designed explicitly to explore migration impacts, confirm that income growth

linkages within villages are significant in a diversity of economic, social and cultural settings (e.g., India (Subramanian and Sadoulet, 1991), Kenya (Lewis and Thorbecke, 1992), West Java (Ralston, 1996), Senegal (Golan, 1996); also see Yunez-Naude, Taylor, and Dyer's (1998) study of eight Mexican villages and towns), even when output supplies in some sectors are less than perfectly elastic (Subramanian and Sadoulet, 1990; Lewis and Thorbecke, 1992; Parikh and Thorbecke, 1996; Yunez-Naude, et al., 1998). Both the magnitudes of remittance multipliers and the distribution of income gains across household groups and production sectors are sensitive to village economic structures.

Second, in general, the more closely integrated migrant sending villages and towns are with outside markets, the smaller the village or town income multipliers resulting from migrant remittances. Through trade, the impacts of remittances on local economies are transferred to other parts of the country, and studies focussing on individual migrant sending communities, like studies focussing on migrant sending households, will miss many, of not most, of migration's impacts. It is likely that a large part of the benefits from migration becomes concentrated in regional urban centres of migrant sending countries, even if the remittances themselves do not go there.

Third, positive, multiplicative impacts of remittances upon incomes in migrant sending areas appear to depend critically on the supply response of local production activities. For example, in rural areas, the multiplier effects of exogenous changes in household incomes (e.g., remittances) are considerably smaller when agricultural supply response is inelastic (e.g., see Lewis and Thorbecke's (1992) study from Kenya, Subramanian and Sadoulet's (1990) study from India, and Parikh and Thorbecke's (1996) study from Pakistan). In a village-town micro-region of Mexico, the multiplier effect of a \$100 increase in exogenous income dropped from an estimated \$115 to \$33 in the villages and from \$23 to \$6 in the town when agricultural supply was constrained (Yunez-Naude et al., 1998). These findings highlight the importance of policies to remove technological constraints on production, promote investment, and develop markets as a means to make remittances more productive in migrant sending economies.

### **Remittances, inequality, and welfare**

Several studies have attempted to ascertain the effects of migrant remittances on income inequality, either by comparing income distributions with and without remittances (Barham and Boucher, 1998; Oberai and Singh, 1980; Knowles and Anker, 1981), or by using income-source decompositions of inequality measures (Stark, Taylor and Yitzhaki, 1986, 1988; Adams, 1991; Adams and Alderman, 1992). These studies yield conflicting findings about the effect of remittances on income inequality: in some migrant sending areas



migrant remittances appear to make the size distribution of income more unequal, while in others remittances seem to narrow income disparities.

Stark, Taylor and Yitzhaki (1986) provide an explanation for these conflicting findings. They argue that out-migration, like the adoption of a new production technology, initially entails high costs and risks. The costs and risks are likely to be especially high in the case of international migration. Given this fact, pioneer migrants tend to come from households at the upper-middle or top of the sending-area's income distribution (Lipton, 1980), and the income sent home in the form of remittances is therefore likely to widen income inequalities.

However, as more households gain access to migrant labour markets through the growth and elaboration of migration networks (see Massey, Goldring, and Durand, 1994), this initially unequalizing effect of remittances may be dampened or reversed. Migrant remittances had an unequalizing effect on the income distribution in a Mexican village that recently had begun to send migrants to the US, but an equalizing effect on another village that had a long history of participating in Mexico to US migration (Stark, Taylor and Yitzhaki, 1988). A welfare analysis of remittances using a social welfare function sensitive to both per capita income and inequality found that remittances increased rural welfare in the case of both villages, although the increase in income inequality dampened the welfare effect in the first village.

An extension of this analysis, taking into account the indirect effects of international migration on income and asset accumulation over time, produced longitudinal evidence in support of the Stark-Taylor-Yitzhaki hypothesis (Taylor, 1992a). The pioneer migrant households' loss of labour to migration, which resulted in local production losses, reduced the unequalizing effects of remittances in the short run. The positive indirect effects of migration on household income in poorer families (achieved by loosening capital and risk constraints on local production, as predicted by the NELM) made migration more of an income equalizer in the long run.

If the NELM is correct, then poorer households will face the most severe capital and risk constraints on investments in local production activities and, therefore, the largest incentives to send migrants abroad. Initially, however, barriers to international migration in the form of high costs, poor information, and uncertainty discourage poor households from sending their family members to labour abroad. Taylor and Wyatt (1996) confirm these expectations for Mexico.

Income inequality may determine, as well as be affected by, international migration. Stark and Taylor (1989, 1991) offer evidence that increases in income inequality that make some households more "relatively deprived"

within their reference group (e.g., village) create new incentives for migration. If remittances from those who migrate, in turn, increase income inequality in migrant sending areas, migration may become a self-perpetuating process, creating income gains for some rural households while making others (those not receiving remittance income) more relatively deprived. This, in turn, could increase the likelihood of future migration by members of relatively deprived households.

## CONCLUSIONS

The determinants and impacts of international migrant remittances on migrant sending areas are complex; they are highlighted by the new economics of labour migration literature. The analysis above points to three broad conclusions.

First, the flow of international-migrant remittances into migrant sending economies is large; for example, total world remittances substantially surpass official development assistance (Russell and Teitelbaum, 1992). However, remittances are unequally distributed both across and within countries. Because of this, the immediate impacts of migration and remittances are concentrated in a relatively few migrant sending areas.

Second, migration and remittances influence migrant sending economies in ways that are usually overlooked by migration research. A number of empirical studies from diverse regions support the new economics of labour migration (NELM) hypothesis that migration and remittances have positive indirect effects on incomes in migrant sending households, easing capital and risk constraints on local production. Market linkages transmit the impacts of migration from migrant to nonmigrant households in the sending economy. Remittance-use surveys of migrant households are usually of limited use because they do not provide information on the many indirect influences of migration on migrant sending economies, or even on how remittances affect expenditures in the households receiving them.

Third, the economic environments that encourage out-migration also limit the potential for migrant remittances to stimulate development in migrant sending areas. Poor market infrastructure, particularly in rural areas from which many migrants come, discourages the production of goods for markets. Incomplete or missing credit markets in migrant sending areas make it difficult to harness remittances for local investment, and they force migrant households to perform the dual function of being agents both of migration and of investment. Misguided economic policies create economic uncertainties and/or restrict opportunities in ways that both stimulate migration and may seriously limit

productive investment opportunities for migrants, their families, and others in the local economy.

Migration is never a panacea or a substitute for good economic policies. There are many pessimistic case studies in which international migration allegedly did not promote development in migrant sending areas. However, they are not from countries that followed models of sound macro-economic management or broad-based growth-oriented development. Creating a fertile ground for migration and remittances to contribute to broad-based income growth in migrant sending areas is the key to promoting development from migration.

#### NOTES

1. The Philippines officially argues that exporting workers is a transitional policy that will stop as per capita incomes rise. However, most analysts note that the Philippines has been unable to create manufacturing jobs for ex-farmers – about 28 million Filipinos are considered to be poor, and two-thirds of them live in rural areas – and new labour force entrants. By some estimates, one in three Filipino households has or had a member employed abroad (*Migration News*, 2(12), 1995).
2. Rempel and Lobdell (1978), reporting on a survey of 50 remittance-use studies for the International Labour Office, concluded that “most of the money remitted is used for increased consumption, education and better housing”. Lipton (1980) likewise concluded that investment is a low priority use of remittances in migrant sending villages and that “everyday [consumption] needs often absorb 90 per cent or more of a village’s remittances”. One study cited in Chandavarkar (1980:39) concluded that remittances are “frittered away in personal consumption, social ceremonies, real estate, and price-escalating trading”.

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## L'ÉCONOMIE NOUVELLE DE LA MIGRATION DE MAIN-D'OEUVRE ET LE RÔLE DES RAPATRIEMENTS DE SALAIRES DANS LE PROCESSUS MIGRATOIRE

En 1995, les rapatriements de salaires des migrants internationaux ont dépassé 70 milliards de dollars. Quelle influence ont-ils eu sur le développement dans les pays exportateurs de main-d'oeuvre?

Dans la littérature, les perspectives sur les plans de la migration et du développement sont empreintes de pessimisme. En revanche, cette nouvelle économie qui découle de la migration de main-d'oeuvre présente l'avantage d'être un catalyseur potentiel de la dynamique du développement, en ce sens qu'elle peut atténuer les contraintes en termes de production et d'investissement auxquelles sont confrontés les ménages dans un environnement de marché imparfait et créer des liens entre les revenus et la croissance.

Le présent article évalue le potentiel de développement des rapatriements de salaires considéré du point de vue de cette nouvelle forme d'économie et fait valoir des preuves empiriques tendant à montrer que les rapatriements de salaires peuvent constituer un facteur positif du développement économique.

Les gouvernements des pays exportateurs de main-d'oeuvre peuvent accroître le potentiel de développement des rapatriements de salaires par tout un éventail de politiques économiques. En créant les conditions pour que les rapatriements de salaires participent à une hausse généralisée des revenus dans les pays exportateurs de main-d'oeuvre, on se dote d'un moyen clé pour oeuvrer au développement par le biais des migrations.

## LA NUEVA ECONOMÍA DE LA MIGRACIÓN LABORAL Y LA FUNCIÓN DE LAS REMESAS EN EL PROCESO MIGRATORIO

En 1995, las remesas internacionales de los migrantes superaron los 70.000 millones de dólares. ¿De qué manera han influido estas remesas en el desarrollo de las regiones de envío de migrantes?

Las opiniones pesimistas sobre la migración y el desarrollo abundan en los escritos. Pero, la nueva economía de emigración laboral argumenta al contrario que la migración puede poner en movimiento un mecanismo de desarrollo que alivie las restricciones de producción e inversión con que se enfrentan los hogares en entornos comerciales imperfectos y cree vínculos relacionados con el aumento de los ingresos.

Este artículo evalúa el potencial del desarrollo de las remesas desde una perspectiva de la nueva economía de migración laboral y cita pruebas empíricas de que las remesas pueden constituir un factor positivo para el desarrollo económico.

Los gobiernos en los países de origen de migrantes pueden acrecentar el potencial de desarrollo de las remesas a través de una serie de políticas económicas. La creación de un terreno fértil para que las remesas contribuyan a ampliar el crecimiento sobre la base de los ingresos en las regiones de envío de migrantes es la clave para promover el desarrollo a partir de la migración.