Migrant Remittances and Economic Development
Lecture 2

SIPA U8159
Tuesdays 4:10 pm – 6:00 pm
IAB 410

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Review of last week

Definitions and Extensions: IMF BPM5

Data and distribution: data quality, geographic and income distribution

Importance in receiving economies vs. other economic activity and f/x receipts

Wide range of stakeholders in private sector, public sector, civil society

Review of last week

Motivations for studying remittances and development impact

Immediate reforms to enhance remittance flows are possible

A chain of development impacts

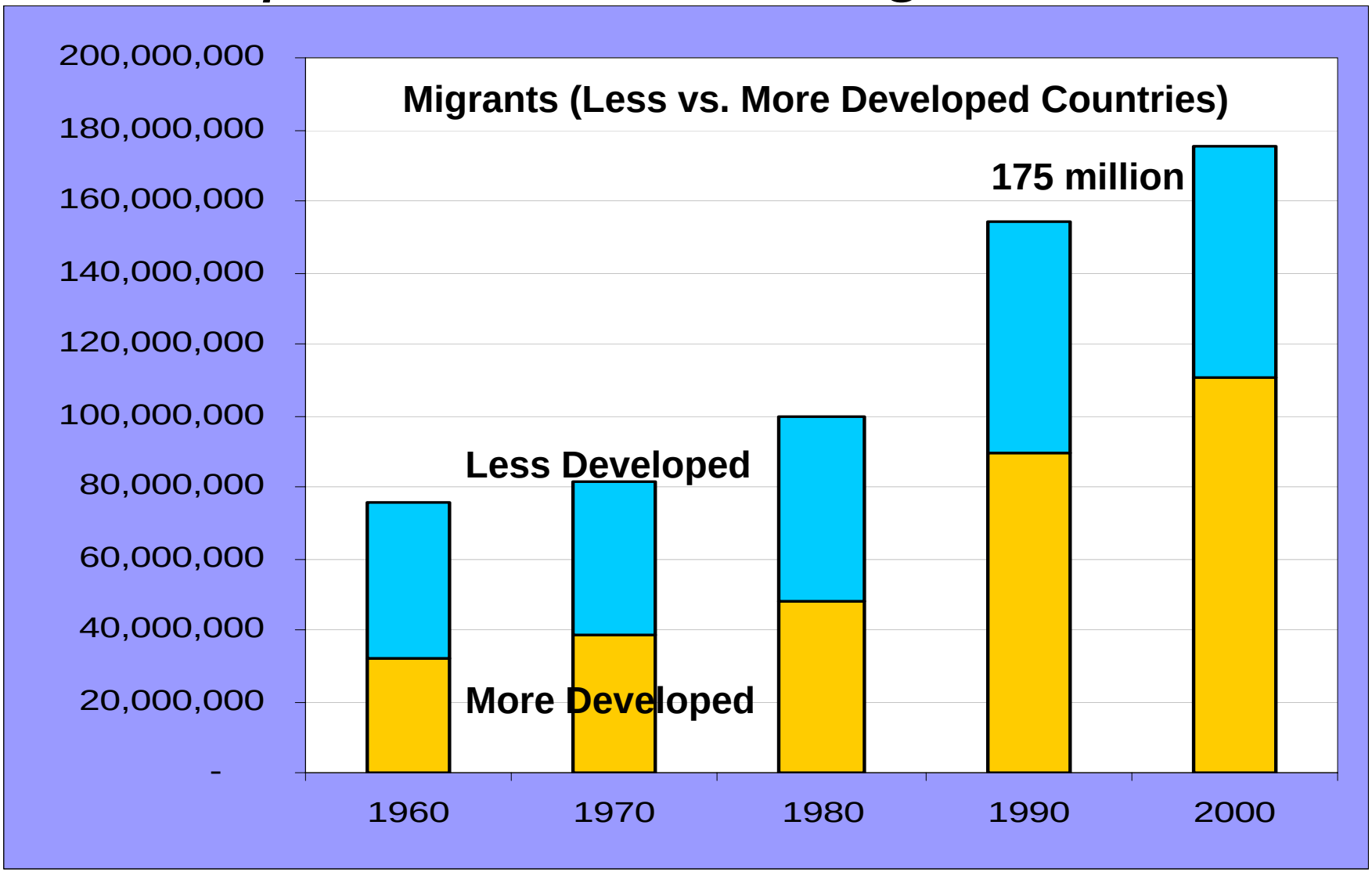
Benefits and challenges

- To households
- To communities
- To national and sub-national governments
- To businesses/financial institutions

Key issues in migration

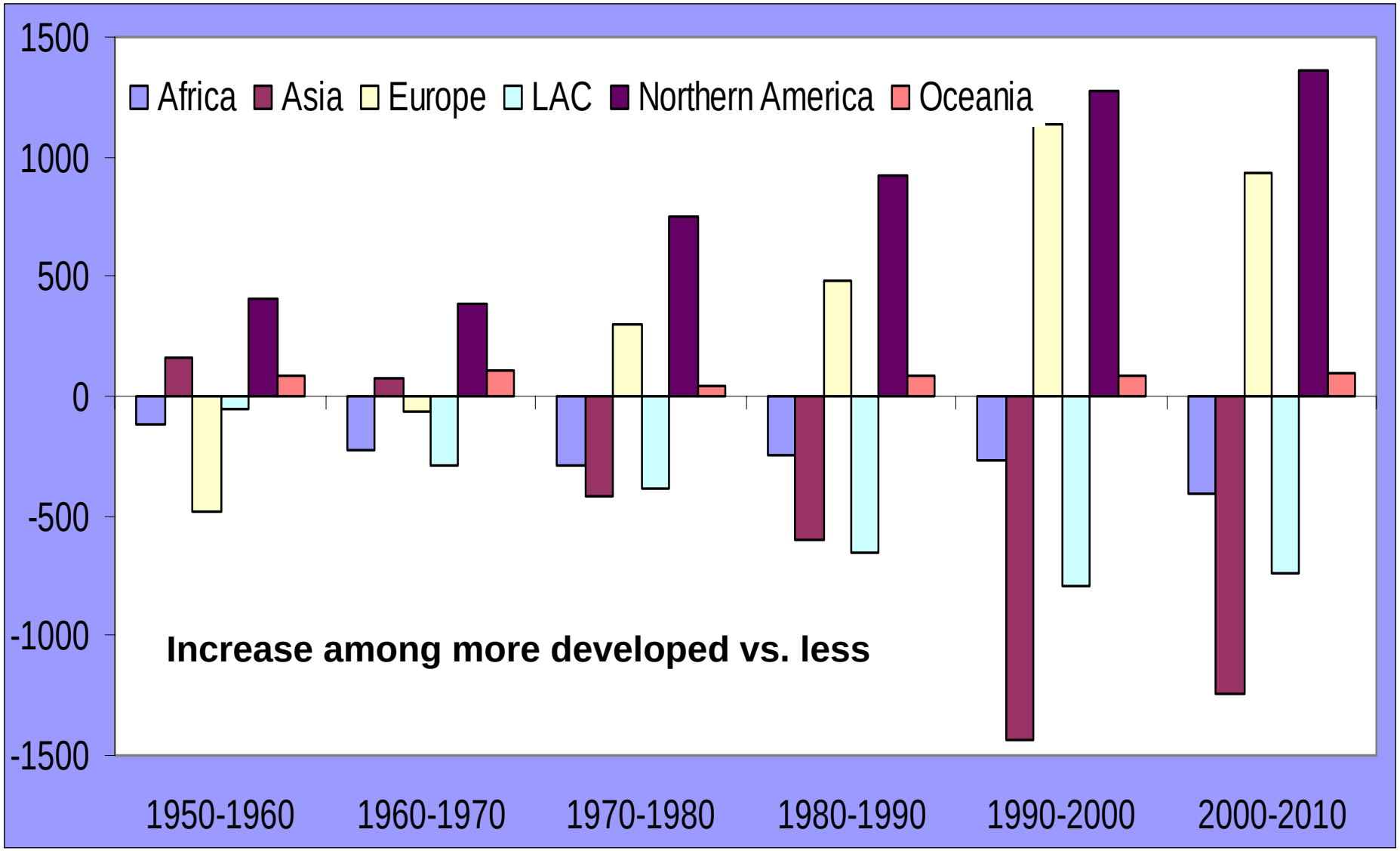
- Global phenomenon
- Pervasive influence
- Selective experience
- Trade/migration substitution – export labor or goods?
- Economic effects are distinct from social/political
- Costs and benefits often not fully explored – difficult to measure

Global phenomenon of migration



Source: Martin, Philip, *Migrants in the global labor market* (September 2005) UN GCIM

Global phenomenon: net migration trends



Global phenomenon: net migration trends

Economic drivers

- Wage differentials in incomplete information

Demographic drivers

- Declining labor force in developed countries, expanding in developing

Conditioned by

- Social interactions: “perceived relative deprivation” *****
- Family coinsurance and risk assessment: “a calculated strategy” not an “act of desperation or boundless optimism” *****

* Stark, Bloom 1985

Pervasive influence of migration

Changes in income for migrants, natives in destination countries, households in origin countries, existing migrant stock

Costs, benefits depend on:

- differentiation/substitutability among workers
- impact of migrants on fiscal balance
- the flow of remittances
- investment climate in both sending and receiving countries

Political/social consequences, cultural change

Selective experience of migration

Most important determinants:

Geographic proximity and colonial ties

Family reunification

Humanitarian, asylum seekers

Existence of social networks, communities

High skilled economic migration

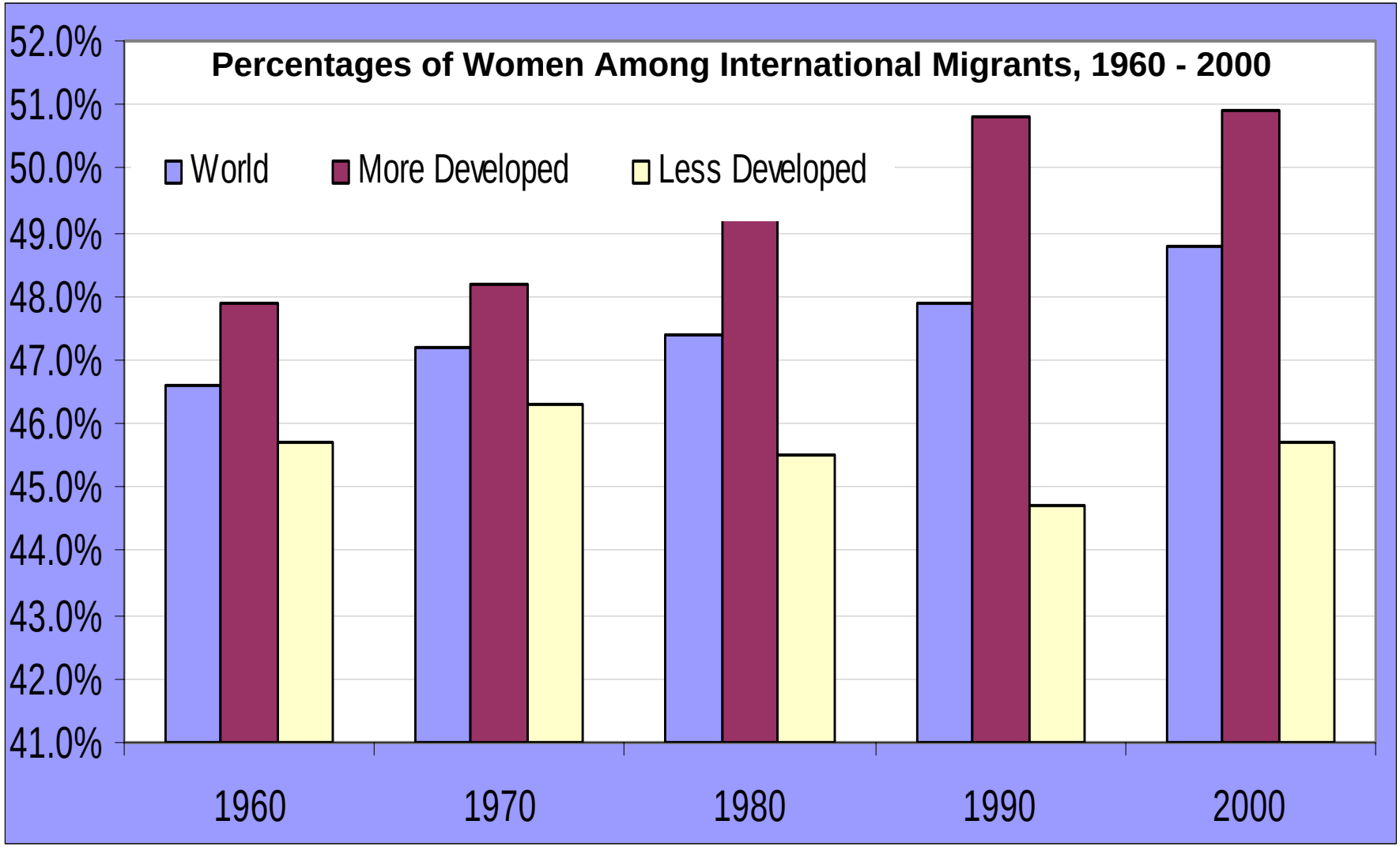
Temporary/permanent and irregular/regular

Age: Young migrants dominant

Less clear: urban/rural, skilled v. unskilled

Is the "innovation" of migration more important?

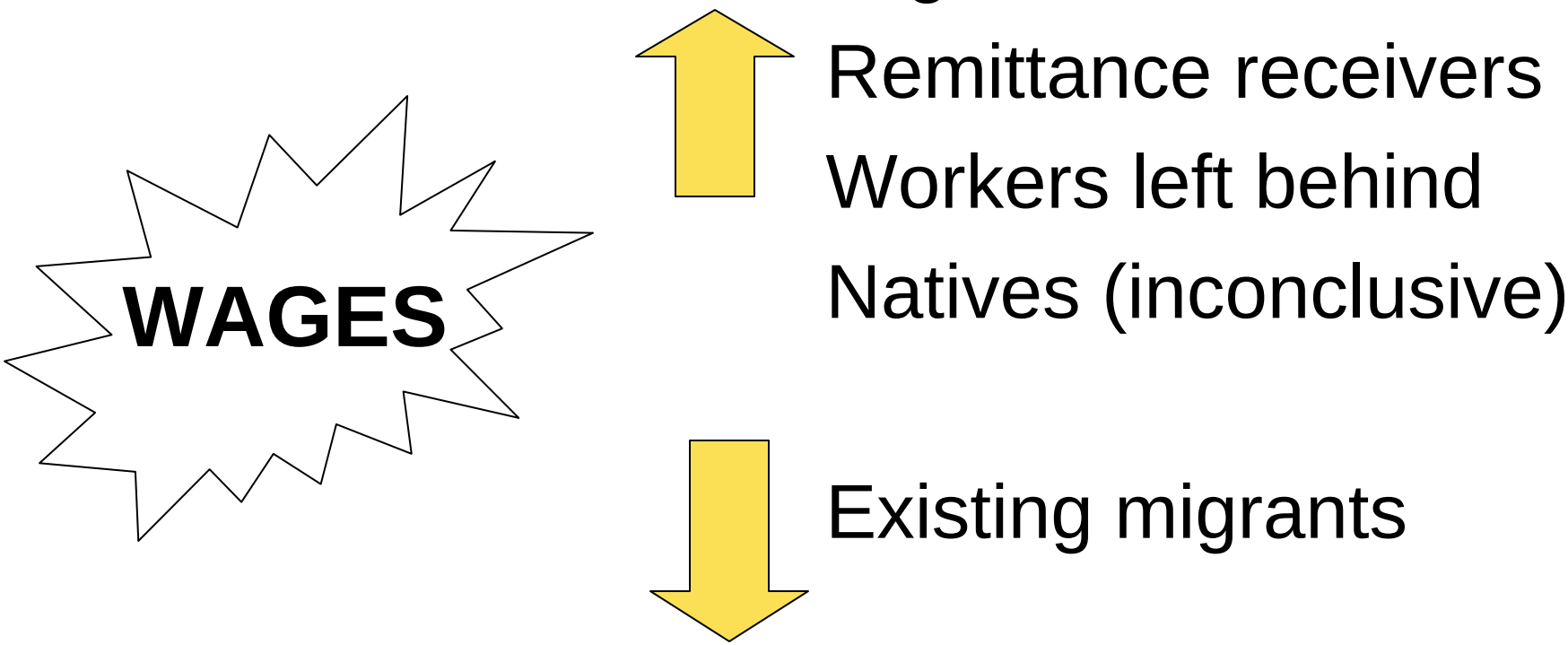
Selective experience of migration



Source: Report of the GCIM, *Migration in an interconnected world: New directions for action*, (October 2005)

Economic vs. social/political impacts

Main economic impact:



Economic vs. social/political impacts

Migration/trade – complex, not substitutes

Fiscal impact – neutral, depends on assumptions about skills/education, short vs. long term, government policies, etc.

Distribution of gains depends:

- Size of the migration
- Skilled vs. unskilled
- Returns to capital/labor
- Labor substitution

Economic vs. social/political impacts

Developing country impacts depend on:

Brain drain/skill loss → Impact on production

Propensity to remit → Impact on consumption

Migrants' destinations → Work opportunities

Wage differentials → Relative income gains from remittances

Economic vs. social/political impacts

Policy must be based on social costs too

High risks and costs to both migrant/family

Poor information, high earnings expectations

Factors more difficult to observe and quantify:

Family disintegration, delinquency, educational performance, health issues

Response: formalize contracts, provide information re: migration, use fiscal incentives, encourage development of the diaspora