

Remittances, Unemployment and Economic Development in Low- and Middle-Income Countries

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Abstract:

Remittances from citizens working abroad represent one of the largest sources of financial flows to low and lower- middle income countries. In those countries most of the amount received by the families of migrant workers are spent on consumption necessities such as food, education and health expenditures. These consumption expenditures increase economic activity in the short run and contribute to development in the long run. This study intended to assess the causal link between remittances, unemployment, economic growth and human development in three income groupings. Vector Autoregressive Model methodology (VECM) was used to examine the short run dynamics and direction of causality in three separate panels of 23 low income, 42 lower- middle income, and 48 upper middle-income countries for the 1990 and 2018 period. For the estimation of long run elasticities of remittance flows Fully Modified (FMOLS) and Dynamic Ordinary Least Squares (DOLS) estimation techniques were used. According to the findings of this study, in low income economies remittances received contribute to the economic growth in the short-run, whereas the effect on human development is realized in the long-run as expected. For upper middle-income countries, on the other hand, the effect of remittances on economic growth and human development is marginal. Unemployment rate has a positive long-run effect on Human Development in low income countries indicating the importance of underutilized labor force in low income countries. Furthermore, there exist no causality between remittances received and the unemployment rate for low income countries. At least as measured with unemployment rate, findings in this study do not support the idea that better labor market opportunities are a motivating factor for labor force mobility in low income countries.

Keywords: Economic Growth, Human Development, Remittances, Dynamic Panel Cointegration

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