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Abstract

Migrant Labor and Remittances: Macroeconomic Consequences and Policy Responses

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Many developing countries experiencing poor domestic economic performance view migrant labor as an alternative. We employ a macro-dynamic model of two small open economies – a host country and a labor-exporting, developing country – to address this issue. We analyze how both economies are impacted by alternative tax policies, as well as structural changes occurring in the two economies, and plausible fiscal policy responses. The most important feature of the model is that remittances are endogenized, by being linked to the household members' decisions to migrate. Extensive numerical simulations in response to changing tax rates, structural changes, and alternative policy responses are conducted. These provide important implications for both fiscal and migration policies, and address important questions regarding the current efforts put forward by governments of several developing countries to encourage migrant labor.