Between 1965 and 2000, individuals living outside their countries of birth increased from 2.2 percent to 2.9 percent of world population (United Nations 2002), reaching a total of 175 million people in the latter year (US Census Bureau 2002). The remittances that these migrants send to their countries of origin are an important but relatively poorly understood type of international financial flow.

Migrant remittances compare in magnitude to other important financial flows destined for developing countries, such as official development assistance and foreign direct investment. In 2007, migrant remittances sent to developing countries amounted to US$251 billion (Ratha et al. 2008). Improvements in collection of data on remittances and continued immigration flows to developed countries have generated substantial recent interest in the remittance phenomenon among policymakers, as evidenced by a proliferation of recent policy-oriented reports.¹

This chapter reviews the literature on the relationship between international migration and human development.

Migration Decision-Making

Determining what is known about the factors that drive migration from developing to developed countries is an important first step, because the eventual impacts of migration on human development
may very well depend on the original motivations for the migration flow. For example, accumulating resources for human capital investments (education, health) in children may be a central motivation for migration. In this context, it is also important to understand what motivates migrants’ decisions to return to their home countries, as return decisions may influence human development outcomes as well, by ending the period of high earnings abroad and remittances. In addition, the return of migrant parents may have important impacts on their children’s outcomes.

Early economic models of migration emphasized wage differentials as the primary impetus behind migration flows. But in the face of substantial wage differentials, why would migrant workers in rich countries ever return to poorer countries of origin? Return migration is a puzzle for such exclusively income-maximizing models of migration (such as those in Sjastaad 1962; and Harris and Todaro 1970). A more nuanced understanding of migration decisions—one that incorporates motivations behind both outbound and return migration—is possible in models that consider household utility maximization over a finite horizon, when migrants prefer consumption in the home country to consumption abroad (such as those in Hill 1987; and Djajić and Milbourne 1988). In such models, temporary stays in other countries are used to accumulate resources for later use (consumption or investment) in the home country.

A current debate in research on migrant decision-making is whether durations of migrants’ stays in host countries are determined primarily by straightforward “life cycle” considerations, as opposed to being driven by the need to reach “target earnings” levels. In models based on life-cycle considerations, households choose for their migrating members the length of stay in host countries that balances the marginal benefit from higher savings possible through living and working in those countries (and thus higher lifetime consumption) against the marginal utility cost of working there (as in Stark, Helmenstein, and Yegorov 1997; and Dustmann 2003). In contrast, in target earnings models, households face borrowing constraints and minimum investment levels, and migrating members’ lengths of stay in host countries can thus be determined