

Non-Technical Summary

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Migration, Remittances, and Labor Supply in Albania

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The current paper uses recent household survey data, the Albania Living Standard Measurement Survey which was conducted in 2005, to estimate the effects of migration and remittances on the labor supply outcomes for the working age population in Albania. It attempts to deal with the potential endogeneity problems inherent in this type of analysis by using instrumental variable approach.

Assuming that migration and remittances are exogenous, I find no significant effect of having a household member abroad on the probability that a household member who still lives in Albania works. With respect to remittance receipts, however, unlike in earlier findings, I find no significant effect on the probability of working for the females, and a small, negative, and significant effect for the males.

When an instrumental variable approach is used to correct for the possible endogeneity of the decision to send a household member abroad and of receiving remittances, the predicted effects of migration and remittances on the labor supply are statistically significant only for the males between the age of 46 and 60. The magnitude of the combined predicted effect of having a migrant household member abroad and receiving remittances for the males between 46 and 60 years of age is between 20 and 50 percent reduction in the probability of working. The magnitudes and the signs of the estimated coefficients suggest a negative endogeneity bias between migration and labor supply and a positive endogeneity bias between remittances and labor supply.

The expected negative impact on unemployment among the female population in Albania, due to an income effect of remittances, is not confirmed by recent data, suggesting that in order to reduce unemployment (and possibly further emigration) policies should aim at creating employment opportunities in Albania.

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