Migration and the Village Economy: A Case Study of Remittances, Labour Reallocation and Local Development in Rural India

Circular migration, household risk management and the distribution of gains between origin villages and destination labour markets

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Abstract:
Migration is among the oldest adjustment mechanisms in agrarian economies, yet its consequences for the village of origin remain contested. Optimistic accounts treat departures as a release valve for underemployment and remittances as a source of capital in credit-constrained settings; sceptical accounts stress the loss of labour, the dependence of households on volatile urban demand, and the entrenchment of inequality between migrant and non-migrant families. This case study asks whether, and under what conditions, out-migration from rural India produces broad-based development in origin villages rather than merely sustaining household consumption. Drawing on the development-economics literature, official statistical publications such as the Census, the Periodic Labour Force Survey and the Economic Survey, and published micro-studies, it applies dual-economy, new economics of labour migration, network and risk-sharing frameworks to the village economy. The analysis argues that the binding constraint is less the volume of migration than its composition and terms: short-duration, low-skill, informal circular migration stabilises incomes and smooths consumption, but converts into productive local investment only where credit, land, local non-farm demand and social protection are sufficiently developed. Formula-based exhibits illustrate how migration equilibrium responds to wage gaps and employment probabilities, how remittances propagate through local demand, and how the net village gain depends on the local spending share. The article concludes with recommendations on portability of entitlements, remittance channels, local non-farm diversification and data, and notes the evidentiary limits of a case study built on secondary sources.

Keywords: migration; remittances; village economy; circular migration; rural labour markets; household risk; new economics of labour migration; India

1. Introduction and background

Structural transformation entails the movement of labour from low-productivity agriculture to higher-productivity sectors, and in most economies that movement has also been a movement across space. In India, agriculture continues to employ a large share of the workforce while contributing a much smaller share of output, so that the gap in average labour productivity between farm and non-farm work is wide and persistent. Migration is the observable expression of that gap. It takes many forms: permanent rural-to-urban relocation, marriage-related movement (which dominates the Census count of migrants, particularly among women), and, most relevant for the village economy, short-duration and seasonal circular migration, in which household members work for part of the year in construction, brick kilns, textiles, services or

agriculture elsewhere and return to the village.

Two features make the Indian case instructive. First, official statistics capture short-term and circular movement poorly, so that the scale of the phenomenon is routinely understated relative to estimates from village studies (Deshingkar & Farrington, 2009). Second, the 2020 national lockdown made the dependence of many village households on distant labour markets suddenly visible, as large numbers of workers returned to origin districts and remittance flows fell sharply. The episode raised a question that this article treats as central: is migration a route out of village poverty, or a mechanism that allows poor households to remain poor with greater stability?

This article treats out-migration as a case of household-led, market-driven reallocation operating within a weak policy architecture, and asks what the evidence reveals about the conditions under which remittances and returning labour become local development rather than local consumption.

2. Statement of the research problem and significance

The research problem is whether sustained out-migration from villages raises local productive capacity, incomes and resilience, or whether its gains are confined to the migrant household's consumption and are offset by labour shortages, social strain and dependence on destination labour markets. Three features make the question non-trivial. First, the welfare effect of migration depends on who moves, for how long and on what terms; a young adult male migrating with a network contact into a stable construction job is a different case from a family moving through a labour contractor under advance payment. Second, the village economy is not a single market: land, labour, credit and insurance markets interact, and remittances alter the demand and supply conditions in all of them. Third, benefits and costs are distributed across migrants, left-behind household members, landowners, landless labourers, local traders and the state in ways that aggregate migration statistics do not reveal.

The significance of the case lies in its relevance to a policy environment in which migration is large, informal and largely unplanned, and in which rural development strategies have often been designed as though villages were closed economies.

3. Research objectives, guiding questions and case design

The objectives are to (i) document the pattern and drivers of rural out-migration; (ii) analyse the channels through which migration affects household and village outcomes; (iii) examine remittances and the local multiplier as the principal transmission mechanism; (iv) assess distributional and fiscal implications; and (v) derive policy lessons. The guiding questions are: Why do households send migrants, and what does this imply for the type of migration observed? How do remittances and the absence of workers alter village labour, credit and land markets? Under what conditions do remittances generate local investment? Who gains and who bears the costs?

The study is an analytical single-case design based on secondary sources: the theoretical literature, published empirical studies from India and comparable economies, and official statistical publications. No primary survey, household interview or econometric estimation was undertaken. Several limitations of the evidence should be noted. Estimates of the scale of circular migration vary widely by definition and source; remittance flows to households are rarely measured directly and are often inferred from consumption or transfer modules; and village-level findings from a few study sites cannot be generalised to all regions. The article therefore reports findings with their sources, avoids precision that the evidence does not support, and treats quantitative statements as indicative. Formula-based exhibits are identified as illustrative; their parameter values are hypothetical and are not empirical findings.

4. Conceptual and theoretical framework

Four strands of theory structure the analysis.

The first is the dual-economy tradition. Lewis (1954) modelled development as the transfer of surplus labour from a subsistence sector to a capitalist sector at a roughly constant wage, and Harris and Todaro (1970) showed that rural-urban migration can persist even where urban unemployment exists, because migrants respond to the *expected* urban wage, the product of the formal wage and the probability of obtaining formal employment. Migration continues until the expected urban wage equals the rural wage. The framework explains why informal urban sectors absorb migrants, but it treats the individual as the decision unit and the village as a source of homogeneous labour.

The second is the new economics of labour migration (NELM). Stark and Bloom (1985) and Lucas and Stark (1985) reframed migration as a household strategy to diversify income sources and relax credit and insurance constraints. Where markets for crop insurance and credit are missing, sending a member to a labour market whose returns are weakly correlated with local rainfall is a form of portfolio diversification. Remittances are then a contractual arrangement within the household rather than an altruistic transfer, and migration may occur even without a wage gap if it reduces risk (Rosenzweig & Stark, 1989). Relative deprivation within the village reference group may add a further motive (Stark & Taylor, 1991).

The third is the economics of networks and risk-sharing. Munshi (2003) shows that migrants' prior networks at the destination raise the probability of employment, which implies that migration is path-dependent and that origin communities with early movers send more people. Munshi and Rosenzweig (2016) argue that caste-based insurance networks in India raise the cost of leaving and can keep rural-urban wage gaps large, because individuals trade higher expected earnings for the security of village-based mutual support. Morten (2019) models temporary migration and endogenous risk-sharing, showing that the possibility of migration can weaken informal insurance within the village and that policies affecting migration have general-equilibrium effects on those arrangements.

The fourth strand is the analysis of constraints, credit and technology adoption. Bryan, Chowdhury and Mobarak (2014) show in an experiment in rural Bangladesh that a modest incentive for seasonal migration raised consumption in the lean season, and that the effect was sustained because households repeated the migration. Their finding implies that information, liquidity and risk, rather than only wage gaps, limit migration. A critical reading of the four strands together suggests that remittances are neither automatically developmental nor automatically wasteful: their use depends on the constraints the household and the village face.

5. Review of relevant literature

The empirical literature on remittances is divided. Cross-country studies report that remittances reduce poverty and may raise investment in education and housing (Adams & Page, 2005), while the macro-development evidence on growth effects is less consistent. Evidence from Mexico indicates that remittances relax capital constraints on household enterprises (Woodruff & Zenteno, 2007), which supports the NELM view that migration substitutes for missing credit. At the same time, work on China shows that migration lowers production by sending households unless offset by remittances, so that the net effect depends on labour slack and the quality of transfers (Rozelle, Taylor & de Brauw, 1999).

Indian research on circular migration, much of it based on village studies, emphasises that migrants are drawn from both the poorest groups, for whom migration is a coping strategy under debt and distress, and better-off groups, for whom it is an accumulation strategy (Deshingkar & Farrington, 2009). The distinction matters for policy because it predicts different uses of remittances and different vulnerability to shocks. Studies of the national employment guarantee scheme find that rural public works can reduce seasonal

out-migration by raising local wages and offering an alternative in the lean season (Imbert & Papp, 2015), which indicates that the village labour market and the migration decision are jointly determined. Work on the human-capital effects of migration points to a further tension: parental absence can reduce children's schooling in some settings, while remittances can finance it in others, so that the sign depends on household structure and local services.

Together these strands motivate attention to whether migration policy and rural development policy are complements or substitutes, and to whether remittances are converted into productive capacity or into consumption that leaves the village economy through purchases elsewhere.

6. Case analysis

6.1 Patterns and drivers of rural out-migration

The Census records a large and rising stock of internal migrants, but its categories omit most short-duration movement, and household surveys that ask about employment-related absence suggest that the workforce in circular migration is considerably larger than the Census count implies. Official commentary, including the Economic Survey of 2016-17, has argued that the scale of inter-state labour mobility is substantial and has grown, with flows concentrated from a few lagging states in the north and east toward higher-wage destination states. The pattern is consistent with the dual-economy and network models: origin regions are characterised by low agricultural productivity, small and fragmented holdings and limited non-farm demand, and destination regions by construction and manufacturing demand and by established migrant communities.

Three drivers recur across the literature: (i) wage differentials between origin and destination; (ii) seasonality in farm labour demand, which leaves rural households with underemployment in the lean season; and (iii) the absence of insurance and credit, which makes diversification of income sources valuable. Because these drivers operate at the household level, the unit of analysis in the remaining sections is the village household, and the village economy is treated as the aggregate of such households interacting through local markets.

6.2 Household decision-making: an illustrative migration equilibrium

The Harris-Todaro condition can be stated compactly. Let w_r be the rural wage, w_u the formal destination wage and p the probability of obtaining formal work. A risk-neutral individual migrates while $p \cdot w_u > w_r$, so that in equilibrium $p^* = w_r / w_u$. Table 1 gives hypothetical values.

Table 1. Illustrative migration equilibrium: the probability of formal employment at which an individual is indifferent between staying and moving

Rural wage (Rs/day)	Destination formal wage (Rs/day)	Equilibrium probability of formal work
250	625	0.40
250	500	0.50
350	500	0.70
350	700	0.50

Source: Author's illustrative calculation: p* = w_r / w_u. Wage values are hypothetical and do not describe any particular labour market.

The exercise shows two things. First, a rural wage rise (for example through public works or agricultural growth) raises the employment probability that a migrant requires, and so reduces migration at the margin, which is the mechanism behind the employment-guarantee findings noted above. Second, the model's reliance on a formal destination wage is a poor description of the informal construction and services work in

which most circular migrants are in fact engaged, so that the NELM emphasis on risk and credit is a more realistic guide to household behaviour than a pure wage comparison.

6.3 Remittances and the local multiplier

Remittances raise household income, but their effect on the village economy depends on how much is spent locally. Suppose a migrant remits R, the household's marginal propensity to consume is c, and the share of consumption spending that is spent on locally produced goods and services is l. If local suppliers in turn spend a fraction $c \cdot l$ of each additional rupee of income locally, the local income generated is $R / (1 - c \cdot l)$. Table 2 uses a hypothetical monthly remittance of Rs 4,500, which is 30 per cent of a migrant's monthly earnings of Rs 15,000, sent to a household whose local income is Rs 8,000.

Table 2. Illustrative local income generated by a remittance of Rs 4,500 per month under different local spending shares

Propensity to consume (c)	Local spending share (l)	Local multiplier 1/(1 - c·l)	Local income generated (Rs)	Gain relative to local income of Rs 8,000
0.8	0.25	1.25	5,625	70%
Propensity to consume (c)	**Local spending share (l)**	**Local multiplier 1/(1 - c·l)**	**Local income generated (Rs)**	**Gain relative to local income of Rs 8,000**
0.8	0.50	1.67	7,500	94%
0.8	0.75	2.50	11,250	141%

Source: Author's illustrative calculation: local income = R / (1 - c·l), with R = Rs 4,500. Parameters are hypothetical and are not estimates from any survey. The first-round household gain from the remittance alone is 4,500/8,000 = 56 per cent.

The illustration makes the policy point explicit. The gain to the village rises steeply with the share of spending that is captured locally, which depends on the density of local shops, services, construction, repair and processing activity. A village with a thin non-farm economy leaks most remittance income to nearby towns, and the multiplier is correspondingly low; a village with a diversified local economy retains more of it. The calculation excludes savings, investment, price effects and the loss of the migrant's own local production, all of which would alter the net result.

6.4 Labour, land and credit markets in the origin village

The departure of workers affects the village labour market through the elasticity of local labour supply. Where the village has substantial surplus or seasonally idle labour, which is the typical situation in densely populated rural areas, departure reduces underemployment with little loss of output, and may raise local wages for those who remain. Where migration is selective of the most able workers, or where it coincides with peak agricultural demand, output losses and wage increases may be more significant. The latter effect has been associated with the spread of mechanisation and a shift to less labour-intensive crops in some regions, which in turn may reduce local labour demand and reinforce migration.

In the land market, remittances can finance purchase or lease of land by migrant households, or lease-out of land by households whose members have left, producing tenancy arrangements that differ from the traditional pattern. Where land titles and tenancy rights are poorly recorded, informal leasing may leave both parties exposed. In the credit market, remittances act as collateral-free liquidity and may reduce reliance on informal moneylenders; conversely, migration is itself often financed by informal advances from contractors, which can tie the migrant to an employer and embed debt. The distinction between migration as a means of escaping debt and as a mechanism that creates it is one of the central empirical questions in the literature.

The NELM-based insight is that households' investment choices respond to the constraints they face. Where

credit is tight, remittances finance working capital, school fees and small enterprises; where consumption is the binding concern, they finance food, housing and health care. Both uses are rational, but only the former raises the village's productive base.

6.5 Risk, resilience and the lockdown episode

The diversification argument predicts that migration should reduce the exposure of the household to local shocks, but it also creates exposure to destination shocks and to shocks that affect many migrants simultaneously. The 2020 lockdown illustrates the second case. Because many migrants worked in sectors that were shut down at once, remittances fell and in some regions ceased, while return flows placed new demands on origin-village labour markets and on public works. The experience suggests that the risk-diversification benefit is real but conditional: it holds when destination and origin shocks are weakly correlated and when migrants can access destination-side protection, and it weakens when migrants are concentrated in a small number of informal activities in a small number of cities.

Morten's (2019) analysis points to a further consideration: if migration weakens informal risk-sharing within the village, then policies that make migration easier may leave those who stay, and those who return, with less insurance than before, so that social protection needs to be designed with both groups in view.

6.6 Distributional and fiscal effects

The gains from migration are distributed unevenly. Migrant households with networks and some education tend to obtain better jobs and higher remittances, while the poorest migrants, who move under distress and through contractors, often earn less and retain less. Within the village, landowners and traders may benefit from higher local demand, landless labourers from higher wages where labour becomes scarce, and migrant households from higher incomes; non-migrant households without networks may be left behind. Women's outcomes are mixed: women left behind may acquire greater decision-making authority but also carry larger burdens of farm work and care, and women who migrate often work in more vulnerable conditions. Children's outcomes depend on whether remittances finance schooling or whether absence disrupts it.

The fiscal dimension is also important. Origin states bear the costs of educating the workforce, while destination states obtain the output; public services at the destination are frequently inaccessible to migrants because entitlements, such as subsidised food, are tied to residence. The state therefore faces a tension between its roles as provider of services to its residents and as the origin of workers who spend much of the year elsewhere. A proper distributional assessment would require household data disaggregated by caste, gender, landholding and migration type, which are not available in the public sources reviewed.

6.7 Constraints and bottlenecks

Table 3. Bottlenecks in the migration-village economy relationship, mechanisms and policy responses

Bottleneck	Mechanism	Implication	Policy response
Informality and poor measurement of circular migration	Short-duration movement is largely outside official definitions	Policy is designed for a smaller population than the one it affects	Add migration modules to regular surveys; register migrant workers
Entitlements tied to residence	Subsidised food, health and schooling are not portable	Migrants are excluded at destination and may be lost to origin schemes	Portable entitlements; inter-state coordination
High-cost, informal	Fees and cash carrying	Smaller and less predictable	Low-cost digital transfer channels;

remittance channels	reduce net transfers	inflows	financial inclusion
Thin local non-farm economy	Low local spending share	Low multiplier; remittances leak outside the village	Rural enterprise, services, processing and construction support
Contractor-mediated recruitment and debt	Advance payments tie workers to employers	Low net earnings; vulnerability to exploitation	Registration of contractors; grievance mechanisms at destination
Credit and insurance gaps	Missing markets drive diversification	Remittances finance consumption rather than investment	Rural credit, crop and health insurance, savings products
Weak local-wage alternatives	Low rural wages raise the migration incentive	Distress-driven movement persists	Local public works and agricultural productivity growth

Source: Author's synthesis of the literature cited in Sections 4 to 6. A qualitative analytical framework, not an empirical test.

7. Limitations, challenges, trade-offs and distributional effects

The principal limitation is evidentiary: the case relies on secondary sources, including village studies from particular regions, whose findings may not generalise, and on official statistics that omit much short-term migration. The single-case design cannot isolate the effect of migration from changes in agriculture, public programmes, prices and demographic change. Remittance measurement is weak, and the exhibits in Tables 1 and 2 are formula-based illustrations rather than estimates. Developments after the period covered by the cited sources may not be reflected.

Trade-offs are intrinsic. Migration stabilises household income but may weaken local risk-sharing; remittances raise consumption but may reduce the incentive for local investment if they are spent outside the village; making migration easier increases household choice but may accelerate the loss of working-age labour from origin areas; and strengthening local employment programmes may lower distress migration while also reducing the diversification benefits of destination earnings.

8. Policy implications and recommendations

First, treat migration as a permanent feature of rural livelihoods rather than as a failure of rural development. Policy should aim to improve the terms on which people move, and to widen the choice between moving and staying, rather than to suppress movement.

Second, make entitlements portable. Food security, health insurance, schooling for migrants' children and social security should follow the person, with interstate data systems and clear financing responsibilities between origin and destination governments.

Third, lower the cost and risk of remittances and strengthen the financial products available to recipients: low-cost digital channels, savings and recurring-deposit instruments, and credit linked to remittance histories, so that a larger share of transfers is converted into investment.

Fourth, raise the local spending share by supporting the rural non-farm economy: services, processing, repair, construction materials and small enterprise, with attention to access for women, landless households

and socially disadvantaged groups. The calculation in Table 2 suggests that this has a larger effect on village-level gains than increasing remittances alone.

Fifth, maintain local public works and agricultural productivity programmes as a counterweight to distress migration and as a safety net for returnees during destination-side shocks.

Sixth, improve the evidence base: add migration and remittance modules to regular household surveys, register recruitment intermediaries, and publish data disaggregated by migration type, caste, gender and landholding so that the effects can be assessed independently.

9. Suggestions for future research

Priorities include primary panel studies of origin villages that follow migrant and non-migrant households over time; measurement of the local multiplier using village-level expenditure data; estimation of the effect of migration on local wages, land use and mechanisation; evaluation of whether portable entitlements change migration duration and destination choice; analysis of the interaction between migration, employment guarantee schemes and crop choice; and gender- and caste-disaggregated analysis of who migrates, on what terms and with what returns.

10. Conclusion

The evidence reviewed supports a cautious proposition: migration is a rational and often effective household response to missing markets and wage gaps, but it does not by itself deliver village development. Short-duration, informal circular migration raises incomes and smooths consumption, yet the extent to which it strengthens the village economy depends on the share of remittances spent and invested locally, on the availability of credit and insurance, on the depth of local non-farm activity and on the protections available to migrants and to those who remain. The illustrative calculations make the same point: the gain to the village varies several-fold with the local spending share, even when the remittance is unchanged. A rigorous assessment awaits better data on circular movement and remittance use; until then, the case suggests that policy should focus on the terms of migration and the strength of the origin economy rather than on its volume.

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