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## **Labor Migration, Workers' Remittances and Economic Activity: New Instrumental Variables for the Effect of Remittances**

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**ABSTRACT** The core of this work is that it suggests a new methodology to estimate the 'actual net effect' of remittances on economic activity. Applying this new methodology to a small and open economy, namely Jordan, the final results of the study showed that inward remittances have positive and significant effects on consumption, investment, government expenditure and a negative effect on net exports. Outward remittances have a negative impact on consumption, investment and government expenditure and a positive impact on net trade. The total effect of remittances on GDP, however, is positive. The results also suggest that Jordanian emigrants' remittances play a significant role in forming the very high consumption pattern.