Session 3
Part I: Economics, Drivers and Determinants: Remittances and Migration
Course Lecturer: Lenora Suki
Guest Lecturer: Roberto Suro

Clarification of the Determinants of Remittances.

Russell (1986[1]) proposes a decision modeled remittance system that illustrates the determinants and intermediate effects that influence the flow and uses of remittances.

1. Uses macro- and micro-economic determinants (discussed in previous lectures) that initiate the first decision - migration.
2. The next decision is whether or not to remit. Two general approaches:
   a. Altruism - a migrant remits because he/she cares about their family.
   b. Portfolio – maximizing family/household assets or utility.
   c. Second may include both economic and social drivers whereas first is generally not driven by economic/financial motivations.
3. Once a person has decided to remit, there may be intermediate determinants, such as government tax policies or exchange rate policies.
4. Next is the decision of how to use the money in the home country.
   a. Emphasis on family needs.
   b. May also be a balance between community needs and family needs.
   c. Community can have an impact on how money is spent.
5. This model illustrates ways in which the system is incomplete as presently defined and points in the direction for future research
   a. Notable absence of political and social consequences of remittance flows.
   b. Little note of mode of intermediation as a determinant

Remittance Determinants and Effects

Determinants driving remittance tendencies cut across several categories - economic, financial, social, political and structural:

1. socio-demographic variables of receivers and senders – number of migrants, age, gender, education, marriage status, etc.;
2. economic variables in the home country and the host country - wages, taxes, economic activity, currency;
3. socio-political conditions – ability to integrate into host country, legal framework for immigration, social acceptance;
4. availability of transfer points;

[1] Russell, Sharon Stanton. "Remittances from International Migration: A Review in Perspective." World Development. Oxford: Pergamon Press, Vol. 14, No. 6, 1986, pp 677-696.

5. few determinants have a singular strong effect on remittance tendencies, such as number of migrants abroad;
6. determining causality difficult for analysis and methodology.
    a. Example: inflow of remittances may reduce poverty by increasing household income and loosening budget constraints, allowing families to invest more in health and education. RESULT: as remittances increase poverty decreases.
    b. Alternate example: Poverty increases because of another factor, such as a natural disaster or an economic crisis. Remittances may be spurred on by that. In this case, poverty increases because of crisis; remittances also increase to address the disaster
    c. Growth may cause an increase in remittances if migrants are enticed by improved investment opportunities. Or, contractions in growth may provoke compensatory transfers.
    d. Remittances may increase although poverty may either increase or decrease depending on the example.
7. Following are several determinants and their accompanying effects:
    a. The economic condition of the home country is a critical determinant of remittances flows and uses. (explained above)
    b. The exchange rate can also can have a dual effect.
        i. When host country currency strengthens vs. the home currency, remitters might want to provide receivers with hard currency or additional home currency.
        ii. A dramatically weaker host currency may increase final remittance amounts so that receivers maintain purchasing power.
        iii. Black market exchange rates can also have a large effect on remittance amounts, especially in countries with inflexible official exchange rates, such as Cuba. This effect may be in the choice of intermediation – formal vs. informal.
    c. Dual effect of political risk
        i. Crisis may encourage remittances to support family in difficult economic times accompanying political crises
        ii. Political crisis may discourage remittances as a result of negative perceptions of governance, concerns about corruption, etc.
    d. Facility of transfer is a determinant on remittances. Some analysts suggest that as transfers becomes easier, migration increases. This is unclear.
    e. Gender is a relatively unexplored determinant. Women earn less but remit a greater proportion of their income. Women may spend more on the transfer process in some cases. Implications for financial education?

f. Household income levels in the home country also have an effect on remittance amounts: the less household income is at home, typically, the larger amount the remittance sent to the home.

Disagreement Regarding Impact

The dialogue regarding the impacts in the academic and policy arena is equally polarizing and indeterminate.

1. Taylor (2000[2]) : Dialogue on the impacts of remittances congregates around two opposite extremes:
    a. Developmentalist and new economics of labor migration - more positive view of the development impacts, provides a kind of financial injection into local economies spurring investment, consumption and possibly savings, with an overall positive economic impact.
    b. Dutch Disease and "migrant syndrome" - cautious and critical, negative perspective concerned that remittances too lucrative and increase inequality in the home country, as well as fear of labor and capital depletion from home country

[2] Taylor, E.J. (2000). "The New Economics of Labour Migration and the Role of Remittances in the Migration Process."International Migration 37 (1), 63-88.

Guest Lecturer:
Roberto Suro
Director, Pew Hispanic Trust

One of the major topics of interest among almost all market and policy players is how long is the current trend in remittances going to continue? We have seen explosive numbers in recent years and it is important to try to get a sense a of where we are in this trend: near the beginning, middle or end. Will these explosive numbers continue for years to come or are we going to see a leveling off soon, with a possible decrease? This may also be an important methodological question, because so much of the recent increase is simply the result of improved data collection techniques.

Understanding the Trends
Understanding how we got to current levels is not as easy as it may seem. According to the Bank of Mexico, monthly amounts have increased almost four-fold in five years, from Jan. 2000 through Jul. 2005, reaching almost $2 billion per month. Most of the data in this time-period is very reliable; these were years of relative economic stability in Mexico and the US.

1. With regards to the Bank of Mexico's numbers, there is some argument as to methodology:

    a. Remittances should include any money coming from a Mexican outside the country to a Mexican inside the country. This may include trade in nostalgic goods, payments to coyotes, donations to churches, or a number of other sources. This probably accounts for a small proportion of the total. Even accounting for these numbers, there is an overall and steadily increasing trend.
    b. Difficulty determining how much of the surge is normal market expansion. Western Union flows increase substantially each year. Difficult to know how much is due to increased market share, how much due to increased sending, how much due to switching from informal to formal sending.

2. Major field of inquiry: Why has there been such a large increase?

    a. October 2002, Mexican Central Bank implemented accounting shift, including data as remittances that weren't counted before. Over time, this effect would weaken as data collection improves.
    b. A surge in Mexican migration to the US in recent years. 10.6 million Mexicans in the US in 2004 translates to one out of ten people born in Mexico now living in the US, doubling in 10 years. Note strong correlation between labor demand in the US, migration trends and consequent remittance amounts.
    c. Changing nature of the remittance market a possibility. As it becomes easier to send money, more people may do it. Also, formal remittances

are easier to count. Informal cash remittances have decreased substantially while electronic remittances are increasing.

3. In terms of understanding the sustainability of this increase, the data shows that the preceding three or four factors may influence the size and sustainability of the flow. Nonetheless, it is very difficult to assign values to any of these factors or determine how large their impacts will be in future years.

    a. Possible change in the social understanding of migration and remittances – an increased propensity to remit. Possible drivers: reversed government (Vincente Fox) stance, description of migrants as patriotic and courageous, advertising about virtues of remitting.
    b. Remittances used to carry social stigma of desperation or poverty. Now the failure to remit carries the stigma of selfishness.

4. Possible decay of flows over time: settling and assimilating may cause amounts to begin to decrease dramatically. This, combined with family reunification would suggest that over time, remittances taper off. There is some of this, but the flows have surprising staying power.

Survey Data

1. Surveys conducted by a very reputable Mexican survey firm - largest survey of its kind in Mexico, estimations and inaccuracies unavoidable, but suggest an approximate order of magnitude of 16.6% of Mexican households receive remittances or a little over 4 million households.

    a. Dividing this by $20 billion dollars per year results in about $5000 per household per year, on average. $400 per month is a close match with official numbers tracked by the Bank of Mexico, which estimates approximately $340 per household per year. The data also matches very closely with surveys conducted on senders.

2. A significant discrepancy in the data relates to the amount of time that receivers have been receiving remittances, pointing to the decay issue discussed above.

a. Approximately two-thirds of the 16% who receive have only been receiving them for three years or less, consistent with the large surge in remittances over the last three years.
b. So why only over the last three years that migrants have dramatically increased remittances? Migration itself does not account for this, that is, migrants who have come to the US over the last three years only account for a small percentage of the total number of Mexican migrants within the US.

Questions

1. Question relating to documentation relating to opening a bank account.

   The relevant policymaking here was a Treasury Department interpretation of Patriot Act – Treasury has always said that a person does not need to be a citizen or resident to have a bank account in the US, but a person does need to have identification and proof of residence somewhere. Congressman James Sensenbrenner challenged this rule. Fed Chairman Greenspan argued strongly for openness in the banking system – his argument was that he wanted as much of the money as possible in our system.

   Currently, a person can use a government passport, but also needs something with an address here in the US, and a SSN or ITN. With these three items, a person can open a bank account here in the US. It is still difficult for a migrant to open an interest bearing account or get a mortgage.

2. Question relating to effects on home country communities of migration.

   One of the greatest predictors of likelihood to migrate is having an immediate relative in the US. People want to go to where they see the money coming from. There may even be a tipping point whereby after enough people have left the home village that there is no longer an economic base in that place.

3. Question relating to demographic of migrants that return to home country.

   It is difficult to tell about who goes back to their home country after staying in the US for a little while. There is some evidence that people come here, work here for a while, then return, but they go to the large cities, not to their hometowns. The Mexican government is somewhat fostering the idea that the US can become like a large training academy for Mexicans.