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Immigrants' Remittances

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Immigrants' Remittances

This article highlights some of the research presented in the author's new book, Immigrants and Their International Money Flows, *which is available now from the Upjohn Institute. See p. 6 for details. Visit www.upjohninstitute.org to read the first chapter.*

Workers' remittances are the transfers of money and goods-in-kind that immigrants send back to their countries of origin. Judging from the recent frequency of reports on remittances in the popular press, along with a surge in academic articles on this subject, one is likely to surmise that the flow of money from immigrants to their home communities is a new phenomenon. But this is certainly not so. Historical accounts of migration have often noted the importance and pervasiveness of the return flows of money that frequently follow migration. Magee and Thompson (2006) estimate that remittances to the U.K. from its emigrant population grew rapidly from 1875 to 1913, with U.S.-based emigrants remitting approximately 16 percent of their earnings back to the U.K. And while popular accounts of the Irish potato famine during the mid-1800s focus on large-scale Irish emigration motivated by poverty and hunger, the important role of emigrants' return flows of remittances for the family left behind is not as widely cited. Research on Italian emigration to the Americas has uncovered the significance of remitting New World earnings to Italy in some (but not all) immigrant communities (Baily 1998).

How Much Is Remitted And Where Do Remittances Go?

Figure 1 provides comparative data on remittance receipts for a small but interesting sample of countries, including China, India, and Mexico, the three largest recipients of remittances in the world,[1] with each receiving in excess of US$20 billion annually in 2005. The magnitude of these flows makes these nations the typical focus of reports on international money flows by immigrants. From a business perspective this attention is justified, as bankers and money transmittal firms do well by targeting these markets. But from the perspective of academic researchers, it would be a mistake to limit studies to these nations, as the impact of remittances on many other countries is significantly greater once we consider the magnitude of inflows relative to country economic size.

To demonstrate this point, I provide comparative data of remittances as a percentage of GDP in Figure 2. This graph reveals that remittances amount to over 20 percent of GDP in Honduras, Haiti, and Tonga—countries that did not stand out in terms of aggregate flows in Figure 1. In contrast, the impact of remittances on the Chinese, Indian, and Mexican economies is likely to be more limited given that remittances in these cases are relatively smaller, never exceeding 3 percent of GDP.

Reports of world remittance flows suggest rather brisk growth over the past decade, with these estimates rising to US$260 billion during 2005 from US$102 billion in 1995 (World

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Figure 1 Remittance Receipts in 2005 (in millions of US$)

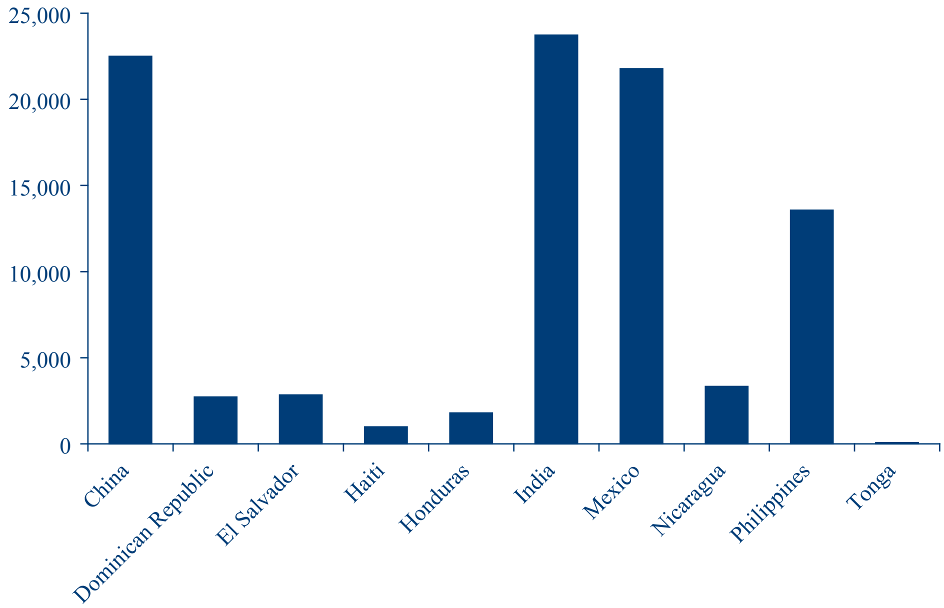
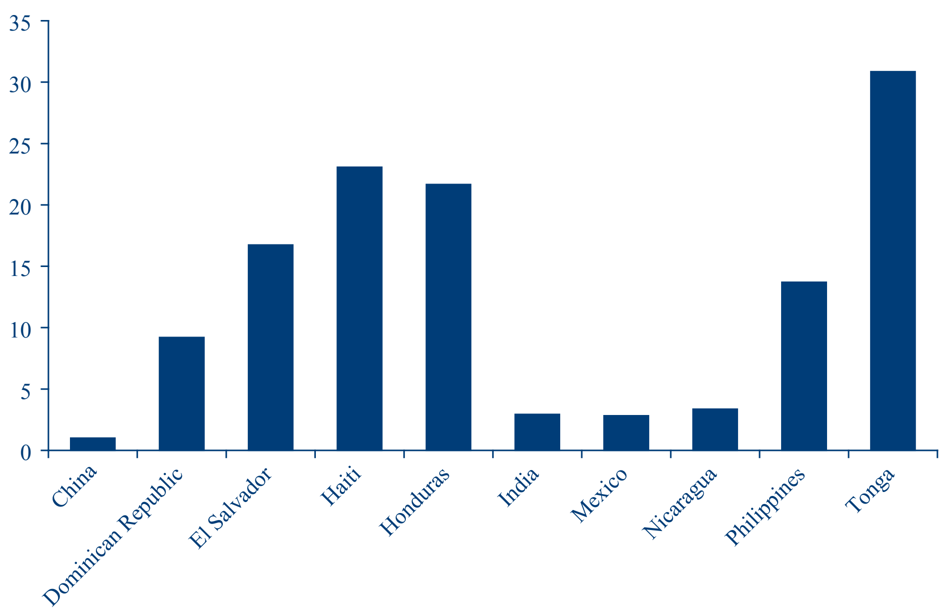


Figure 2 Remittances as a Percentage of GDP, 2005



Bank 2007). However, since national statistical agencies and central banks have recently become more interested and diligent in tracking these flows, it is unclear to what extent these increases represent true growth in money transfers from emigrants to their communities of origin and to what extent we are simply capturing transfers that had previously gone unmeasured. Some of the recorded increase is due to improvement in the "science" of measuring migrants' remittances motivated by the recognition that these flows are more substantial than had previously been recognized.

Despite these advances in the measurement of remittances, time series data on remittances may still be lacking due to variations in the abilities of statistical agencies to track different methods of transmission. Transfers of money that take place through officially regulated channels, such as through banks or recognized money transfer firms (for example, Western Union and Money Gram), are easier to measure than are informal transfers, those that are hand carried, mailed as cash, or transmitted through informal money transfer systems. In fact, a number of researchers claim that recorded flows significantly understate the true volume of flows. Freund and Spatafora (2005), for example, estimate that true flows are 35 to 75 percent larger than officially recorded flows.

While it may be difficult to either dispute or verify claims of the existence of massive informal systems, it is certainly the case that even a relatively small informal sector can seriously compromise time series data, since variations in policies and regulations will naturally impact the transmission methods of choice and in turn the measurement of recorded flows. Take, for example, an important policy shift in 2002, when a number of large U.S. banks began recognizing the Mexican matricula consular (identification card issued by Mexican consulates to Mexicans residing outside of Mexico) as a valid form of identification. This policy facilitated banking by many previously unbanked Mexican immigrants in the United States, causing an observed surge in recorded remittances in 2002 and 2003. This surge may have very well been due to shifting from harder-to-track informal transmission methods by the formally unbanked Mexican immigrants to more easily measured formal bank channels by those same immigrants.

Current U.S. policy has been directed toward facilitating the transfer of migrant remittances to their countries of origin. For example, remittance costs from the United States to Mexico have declined substantially over the past several years on account of concerted effort between governmental, nongovernmental, and private organizations to this end. While U.S. government policy is often stated in terms of facilitating greater volumes of flows in order to promote economic development in immigrants' countries of origin (Bureau of International Information Programs 2004), recent policy reforms are also consistent with the goal of moving flows out from informal remittance transfer systems. In this way money launderers and terrorists are less apt to take advantage of large volumes of legitimate migrants' flows to camouflage their own transactions across borders.

Why Do Migrants Remit?

There are a variety of reasons for migrating and for sending money home. Money may be sent on a regular basis to support the family the migrant may have left back home. In other instances immigrants send money home to save so they can build a house or buy a piece of land to return to during the retirement years. Some migrants remit to smooth the consumption of family back home who have been impacted by a natural disaster or other unanticipated event. Sometimes individuals migrate and remit home in order to contribute toward the purchase of a big-ticket item, for example, a truck for a family-owned business, or to purchase land for the family farm. Sometimes immigrants remit home to diversify their assets on a geographic basis. Remittances are sometimes sent to finance the passage of family members remaining in the community of origin. Some immigrants remit on a regular and periodic basis; others remit more sporadically.

Given the diversity of reasons for migrating and for remitting, one would imagine a multitude of scenarios regarding the impact of remittances on recipient economies, as it is not obvious how these flows will ultimately affect the receiving nations. Do remittances promote economic development? Do they stimulate investments in education, physical capital, or health care? Are they invested in small enterprises? How does the receipt of remittances affect the labor force participation of recipients? Do households become dependent on inflows? Are there any macroeconomic side effects to remittances that may disadvantage recipient economies, as in, for example, the stimulation of inflation? Are real exchange rates affected by large inflows of foreign exchange, thereby changing the relative competitiveness of exports in international markets?

Many of these same questions and more are addressed by the authors in my new book *Immigrants and Their International Money Flows*. In it, Robert E.B. Lucas looks at the impact of migration and remittances on the economic development of out-migration remittance-receiving economies. Oded Stark and C. Simon Fan discuss brain drain and brain gain issues and show how migration policies in migrant-receiving countries may impact labor markets and human capital acquisitions in migrant-sending regions of the world. Christopher Woodruff discusses problems inherent in correctly measuring the impacts of migration and remittances in migrant-sending, remittance-receiving areas. He demonstrates these issues using three important examples: the impacts of remittances on child health, schooling, and investment in microenterprises in Mexico. Catalina Amuedo-Dorantes examines the flows and use of money from U.S. immigrants to their home communities in Costa Rica, the Dominican Republic, Haiti, Nicaragua, Peru, and Mexico. Comparative information on the use of remittances for consumption and investment is one of the areas she covers. David J. McKenzie provides us with information on a relatively underresearched migratory flow, those of Tongans to New Zealand. Expectations by remitters and remittees regarding the longevity of remittances, along with information on the cost of remitting, are two points he addresses. Leah K. VanWey, in the final chapter, presents a framework for categorizing different migration-remittance systems (who migrates and the purpose for their remittances), providing us with insights into the differential impacts of various types of migration.

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The chapters in this book all point to the multidimensional ties that exist between migrants in their adopted homes and the communities from which they originate. Wage disparities, often summarized as "push" and "pull" factors, certainly help explain migration, but the process is really much more complicated than that. The monetary flows that persist beyond the initial migration have significant and lasting impacts on migrant-sending regions of the world. These are important to account for if we are to truly understand migration and its long-run effects.

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Note

The figures are for workers' remittances and compensation of employees and were obtained from World Bank (2007).

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