

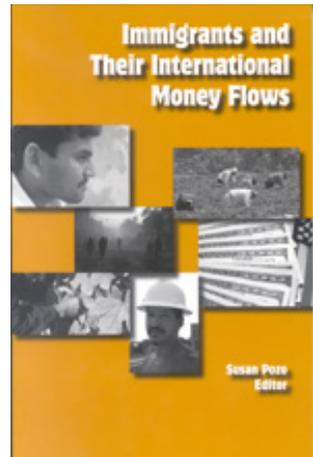
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## Migration and Remittances

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# 1

## Migration and Remittances

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In the mid-1940s, my father migrated to the United States from Uruguay. He met and married my mother (a Dominican immigrant) in New York City and never returned home again while his parents were living. His contacts with his family were infrequent, consisting only of a letter or two each year. In contrast to his separation from his family 60 years ago, my one-year sabbatical leave in Uruguay hardly feels so distant. Thanks to e-mail, Voice over Internet Protocol (VoIP), and digital photography, my parents don't miss a thing, and my husband and I and our 11-year-old daughter get to keep up with their daily lives, too. They know the details of each apartment we looked at before deciding on one, and we get the blow-by-blow on the balcony reconstruction going on at their condominium in Florida. Once a day or so we converse using Skype, an Internet telephony network, and if they are diligent about reading my husband's blog they will even get to see pictures of the chivitos (a typical Uruguayan sandwich) we ate for lunch today.

While it certainly is not the case that all migrants have the ability to travel with laptops, other aspects of the information technology revolution, including telephone cards with relatively inexpensive rates for calling internationally, are widely accessible all over the world. Internet cafes enable even those without regular telephone, electricity, or Internet service to have access to VoIP. In short, it is much easier for migrants to keep up with their families back home and for the families back home to keep up with the absent household member.

Remittances, the earnings that immigrant workers send back home in cash and in kind, are an important by-product of migration. The research community has only recently come to recognize the pervasiveness and growing magnitude of these international money flows. While the measurable growth in money transfers from emigrants to the families back home is likely due to a variety of factors, including better

measurement techniques and an increase in the percentage of families with migrants, I strongly suspect that the ease with which migrants are now able to maintain contact with family back home is an important contributing factor to the observed growth and increased persistence of these flows. In effect, distance is not as great an obstacle for keeping in touch as it used to be. Those with jobs and earning power in their adopted homelands are better informed of the needs and desires of family back home. Remittances are less likely to taper off and are more likely to persist for a longer duration.

This book collects the papers from a yearlong lecture series held at Western Michigan University in Kalamazoo, Michigan, on the topic of international migration, with an emphasis on remittances.<sup>1</sup> An overriding theme that emerges from this collection is the need to appreciate the connection between international migration and remittances in order to fully understand either migration or remittances. Understanding what lies behind migration will often provide us with insights on remittances. But equally important is the need to fully understand the impacts of remittances, as this will provide us with insights about migration.

Some individuals migrate to better their economic standing, others to diversify the income streams of the family, and still others to reunite with family in the destination country. Families sometimes flee their home communities and countries on account of religious or political persecution. Some migrants leave home with the intention of permanently resettling in the foreign destination, while others migrate on a temporary basis—to study, to help a relative in need, to accumulate funds toward purchasing a large-ticket item. Regardless of the reasons for migrants leaving home, substantial inflows of remittances are common to many regions of the world experiencing emigration. While migration and some of its more obvious effects on the out-migration areas have been extensively studied, many aspects of these migratory flows are still poorly understood, including the return flow of money home. But as the contributors to this book point out, to get the full picture we need to understand the impact of remittances on the home communities and on migration in turn. A variety of reasons may explain the absence of research efforts in the area of international remittances, including misinformation about the true volume of flows and overly simplistic models of the motives of migrants who send money home. This book is intended to fill this void by offering the views of six migration schol-

ars who came to the WMU campus to share their research in this area and to offer suggestions for additional efforts toward understanding this complex process.

The collection begins in Chapter 2 with a general overview of international migration by Robert E.B. Lucas, who notes that almost 10 percent of the population in richer countries is foreign-born, and that the majority of these foreigners originated in the developing and low-income world. Poor economic conditions at home are usually presumed to be the impetus for emigration, and a good deal of attention has been paid to that motive for migration. While understanding the connections between poverty and migration can further our understanding of population movements and their effect on the receiving country, Lucas notes that it is equally important to understand the economic impacts of migration for those areas experiencing out-migration.

Lucas suggests that while economic conditions may explain migration, migration in turn explains economic development back home. Disentangling the two can present a challenge for researchers. Nonetheless, Lucas discusses how emigration affects the well-being and economic behavior of those left behind. Emigration does so in several ways: through the remittances that are sent home, through changes in the labor supply of the remaining household members because of departing members, through exchange rate impacts, and through their effects on the human capital levels of the remaining population. Lucas makes clear that in some of these areas the research community is relatively well versed on those impacts, but that in other areas a consensus still has not emerged and we have much to learn concerning the results of out-migration.

Lucas's chapter brings to the forefront a fundamental point: whether governments acknowledge this or not, the immigration policies of the in-migration areas can and do significantly affect economic development in the low-income areas of the world. Debates on migration policy rarely consider the point that differing domestic policies on immigration will have differing consequences for migrant-sending areas of the world. Although there is little consideration given to this aspect of migration policy, economists should, at a minimum, provide policymakers with the facts and data that will present options for devising policies and programs that can lift low-income countries of the world. A better understanding of the consequences of migration policy should

increase the odds that policy can be tailored to better benefit out-migration areas.

In this regard it is important that economists recognize the impacts of differing immigration policies and that they be in a position to inform policymakers of those results when policymakers craft immigration policies. In the book's third chapter, Oded Stark and C. Simon Fan provide additional backing for the notion that immigration policies in high-income areas might have unintended consequences for the out-migration areas.

Stark and Fan note that while it has long been recognized that unemployment in developing countries drives individuals to emigrate so they can join the labor force in the developed world, the notion that causality may also run in the other direction has not been adequately considered. As Stark and others have argued, the prospect of high earnings in the foreign destination may induce greater investments in human capital. In other words, rewards to education in the developed world may drive potential emigrants to spend more time in school and to acquire more skills, leading to "brain gain" in the developing economy. But what has not been adequately recognized is that those out-migration probabilities raise reservation wages (wage expectations) for those seeking to emigrate even while they wait for the opportunity to do so. Given that immigration restrictions in the developed world exist, an excess demand for visas results. Not everyone who wants to migrate gets to migrate, and, given the disparities in wage expectations and wage offers, "educated unemployment" persists.

Stark and Fan's model zeroes in on this educated unemployment phenomenon as an important channel by which the immigration policies of high-income countries affect economic conditions in lower-income areas of the world. Immigration policies that select more-educated immigrants can encourage unemployment in migrant-sending regions of the world, since such policies raise the supply of the better educated in areas with few opportunities for those skills. The authors lament that, to date, rigorous empirical analysis of the complicated interplay between migrant-sending and -receiving areas has been limited. It is important that we attempt to follow up on these relationships to better devise policies and to better understand the connection between brain drain and brain gain.

While the Lucas and the Stark and Fan chapters focus strictly on the impacts of migration and policy on the low-income world, in the book's fourth chapter Christopher Woodruff looks at the effects on both nations of traffic crossing back and forth over the border between the United States and Mexico, which he describes as the "largest unilateral flow of people (in one direction) and resources (in the other) in the world." Woodruff notes that 10 percent of the Mexican-born population resides in the United States—indisputably a massive movement of people across a national boundary. Equally important, and occurring in conjunction with this population movement, are the flows of monetary resources sent by Mexican immigrants in the United States back to their home communities and families.

Woodruff uses these significant bilateral flows to drive home an important point concerning the analysis of migration's impacts on out-migration regions: while it may be tempting to analyze the impacts of migration simply by comparing the outcomes in households with a migrant to those in households without a migrant, such a comparison is unlikely to provide us with reliable information on the effects of migration. This is because households that have experienced the migration of a family member are likely to differ fundamentally from households that have not experienced the migration of a family member. If we simply compare the two types of households, it will be unclear whether the differences observed are due to migration or to the underlying, unobserved, unmeasured characteristics that distinguish the two sets of households in the first place.

In reviewing the measurement issues, Woodruff considers three possible impacts of Mexican migration to the United States: 1) migration's impact on business investments in Mexico, 2) its impact on the health status of children, and 3) its impact on educational attainment.

He points out the pitfalls of using an empirical analysis that ignores the fact that migrant (and remittance-receiving) households are not randomly selected from the overall population. Instead, he directs us to appropriate strategies and techniques to compensate for the non-randomness so that we can properly measure the impacts of migration and remittances.

Using studies that employ appropriate measurement techniques, Woodruff concludes that while migration does not seem to induce new business formation, migration is responsible for substantial investments

in microenterprises in Mexico. As for its effect on human capital, migration seems to promote educational investments in young children while decreasing these same investments in older children. Although child mortality rates are lower in families that have a migrant, researchers are discovering that migration has a negative effect on specific health investments that promote healthy outcomes. For example, doctor's visits and inoculations may be postponed because of monetary and other strains arising from the migration of a family member. Woodruff emphasizes the pains researchers must take to properly measure the separate impacts of migration and of remittances. He provides us with a number of methodologies that can be used to overcome these complex measurement problems.

The fifth chapter in this book concentrates on remittances from the United States to Latin America. Taking advantage of the wealth of information contained in the Latin American Migration Project (LAMP) survey, along with the more established Mexico-based survey, the Mexican Migration Project (MMP93), Catalina Amuedo-Dorantes provides us with a broad, comparative picture of the remittances that flow from the United States to six Latin American countries—Costa Rica, the Dominican Republic, Haiti, Nicaragua, Peru, and Mexico. In order to help the reader better understand these money flows, she discusses what the surveys reveal regarding who migrates and under what conditions they migrate to the United States. The surveys rely on information provided by return migrants. While there are significant differences by country in the proportion of return migrants who declare to have remitted during their last U.S. visit, she finds that on average 70 percent of the migrants claim to have remitted home during their last U.S. visit. They remitted an average of \$300 a month, which was equivalent to 40 percent of their average monthly earnings.

The MMP93 and the LAMP also collect information on immigration status and on the use of smuggling services to undertake illegal immigration. Such information provides us with insights into the barriers that confront migrants as well as information on how these barriers are negotiated. This in turn hints at the likelihood of large monetary obligations incurred back home, which are likely to be reflected in the size of the remittances sent home: if would-be migrants need to contract for smuggling services, it is likely that they will have to remit large sums of money home to pay off those debts and obligations.

Of particular interest in the chapter by Amuedo-Dorantes is the cross-country comparison of the end uses of remittances. Considerable controversy exists regarding the types of expenditures that are undertaken with remittances. Are remittances used by the family remaining at home to finance consumption, or are they used to save and invest? The comparative nature of the surveys sheds light on this hotly debated issue.

In the sixth chapter, David J. McKenzie takes us to another region of the world, the South Pacific, where he examines another large migratory flow: the flow of Tongans to New Zealand, along with the return flow of New Zealand dollars to Tonga. One-third of Tongans have emigrated, and remittances account for 39 percent of Tonga's gross domestic product (GDP). The sheer magnitude of these flows makes the Tonga/New Zealand case one of interest.

McKenzie uses information from the Pacific Island–New Zealand Migration Survey (PINZMS), which queries respondents in detail on the channels used to remit. He supplements this with information he has collected concerning the costs of sending remittances from a number of high-immigration countries around the world to small island states. This permits him a unique perspective on the relative costs and constraints faced by Tongans remitting money home. In a nutshell, McKenzie finds that the relative costs for remitting in the case of Tongans residing in New Zealand are extremely high, and he offers suggestions for policy that may lead to a reduction in the costs of remitting and thereby increase the volume remitted.

McKenzie comes to several conclusions regarding the longer-term flow of remittances. He analyzes the relative expectations by remitters and remitees on the future flow of remittances. This information is crucial to the debate about the long-run impacts of migratory flows on out-migration areas. Some researchers have expressed concern that families in out-migration areas learn to depend on the regular monetary inflows from their family members abroad, letting their own human and physical capital depreciate. Such a concern would be especially critical if indeed recipients of remittances expected the monetary inflows to persist indefinitely. However, because of the nature of the survey, which matches recipients to senders, McKenzie is able to ascertain expectations regarding the future flows of remittances from the perspective of both agents. In the long run, both remitters and remitees expect remit-

tances to decay with time. If remitters do get hooked on remittances, it is not because they falsely believe that the flows will persist indefinitely. The family at home seems to have reasonably realistic expectations about how long the flow of money from family members abroad will continue and to realize that over time the flow will diminish.

The book closes with a thought-provoking chapter by Leah K. VanWey that includes a typology of migration-remittance systems. The typology helps us categorize the three types of migration-remittances systems that are most common: 1) male household heads migrating in order to remit home with the purpose of supporting a wife and children, 2) children who migrate and send money back home to help parents, and 3) hometown associations of migrants that collectively remit to benefit the hometown community. Understanding these variations in migration-remittance systems enables us to identify the likely impacts of remittances in the home community, since they help distinguish remittances that are channeled into private consumption versus those that are channeled into investment and the public good.

Van Wey emphasizes that to truly understand the consequences that remittances have for migrant-sending communities, it is necessary to consider in greater detail the institutions that are in place in the home community, as these ultimately have an impact on remittances. Home community institutions can exert significant pressures on migrants to make financial contributions. Understanding the strengths and the pull of these institutions may give us a more thorough appreciation of the impacts of migration on economic development.

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.

As the world’s information and transportation infrastructure continues to grow, it is likely that emigrants will maintain even closer contacts with their home communities. The links between migrant-sending and migrant-receiving areas will likely get stronger. For this reason, now

is an opportune time to help craft policies that will mold the contribution that immigrants can make both to their adopted and to their home communities.

### **Note**

1. The series was the forty-second annual Werner Sichel Lecture-Seminar Series, hosted by the WMU Department of Economics and jointly sponsored by the W.E. Upjohn Institute for Employment Research and Western Michigan University during the academic year 2005–2006.

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