Remittances

Definition and relevance in the Americas

In their general conception, remittances are financial transfers, usually sent by national or international migrants to support relatives back home (for a detailed definition see IMF 2009a; IMF 2009b). Beyond these private monetary transfers, there are also “collective remittances” sent by diaspora associations for community purposes, remittances in kind (in the form of goods or services), and “social remittances” (ideas, identities, practices, social capital, cf. Levitt, Peggy 1998; Levitt & Lamba-Nieves 2011),. Monetary remittances have grown extraordinarily since the 1990s, both worldwide and in the Americas. Whereas the United States are by far the world’s largest country for sending (50 billion US$ in 2009), Mexico is the third largest receiver (22 billion US$). Concerning the economic relevance in relative terms, remittances in Mexico account for around 2.5% of the Gross Domestic Product (GDP), while in smaller countries, like Honduras and El Salvador, they add up to almost a fifth of the GDP (World Bank 2011). Research on remittances is often coined either by a ‘optimistic’ or ‘critical’ view concerning their development potential.

‘Optimist’ perspectives: Remittances as the new ‘development mantra’?

Motivated by their strong rise, remittances have increasingly been “discovered” as a potential source of capital for development in the international policy discussion. Most of the leading international organizations have dedicated flagship reports to the nexus between migration, remittances and development (IMF 2005; World Bank 2006; UNDP 2009; OECD 2005), raising the question whether remittances would become a new 'mantra' (Kapur 2004) in the development discourse, which responds to the search for a “third communitarian way” of development between pure market liberalism and state-led development strategies (cp. de Haas 2010) and where diasporas play a role in the economic development of their home countries. This shift in policy discourse has been accompanied by academic research that has highlighted several channels though which remittances can have positive effects on the home countries, and contribute to poverty reduction (Adams & Page 2003). Many of these works build on insights of the New Economics of Labor Migration (Stark & Bloom 1985) where the transnational family – rather than the individual migrant – is put into the center of analysis. From this perspective, remittances provide an insurance function for families staying behind, through the diversification of household income and the enablement to receive income to undertake investments in human or physical capital. A number of studies have found empirical evidence that receivers of remittances spend a larger share of their income on education (Adams & Cuecuecha 2010; Hanson & Woodruff 2003; Cox Edwards & Ureta 2003), health (Adams & Cuecuecha 2010; Amueda-Dorantes et al. 2007) and entrepreneurship (D. Massey & E. Parrado 1998; Woodruff & Zenteno 2007), and that remittances function as informal insurance in the case of an economic crisis or natural disasters (Yang & Choi 2007; Yang 2005). Beyond the direct effects of remittances at household level, other authors have emphasized indirect effects of remittances on the economies via consumption spillover (Durand et al. 1996), the stabilization of exchange rates (Singer 2010; Buch et al. 2002; Sayan 2004), and via the development of the financial sector (Demirgüç-Kunt et al. 2011; Aggarwal et al. 2010; Ambrosius 2011; Ambrosius et al. 2010).

'Critical' perspectives: Do remittances sustain old and create new dependencies?

Whereas many multilateral organizations, international think tanks, and governments and social scientists in- and outside of Latin America have joined optimistic discourses about the development potential of remittances, and while there is an increasing number of initiatives to capitalize on that potential, there are also many critical voices in the region and beyond. Skeptics point towards unfulfilled promises and the remittances' (potentially) negative implications. On a macroeconomic level, it has been argued especially that remittances may lead to a loss in international competitiveness through the appreciation of the exchange rate (P. A. Acosta et al. 2007; Amueda-Dorantes & Pozo 2004). On the micro level, expectations that remittances transform into so called "productive" investments are often disappointed as large parts of remittances are spent on daily "consumption", as they basically replace or complement other household incomes (Binford 2003; Cortina et al. 2005; Canales 2008). Some authors have criticized the fact that remittances reduce incentives for the productive investment of resources in the countries of origin and, therefore, do not represent a source of capital for development (Chami et al. 2003). Moreover, even if remittances contribute to lessening poverty, their effect on inequality can be ambiguous, depending on whether "richer" or "poorer" individuals migrate (P. Acosta et al. 2008). Finally, social scientists with a critical perspective on globalization see migration and remittances rather as the negative outcome of neo-liberalism. Authors such as Delgado Wise/Márquez Covarrúbias (2008) argue that remittances are a mere outcome of strangled economic and social development rather than a tool for growth and well-being. In their view, this flow helps to sustain the fragile socioeconomic situation of the migrants' country of origin, expanding the asymmetries between north and south and exacerbating phenomena such as employment insecurity, poverty, and social marginalization. Instead of altering structural development constraints, remittances, according to this view, at best constitute a palliative against the deteriorating socioeconomic situation of the population caused by failed macroeconomic structural policies (Canales 2006; Canales 2008).

Conclusion: The importance of context and governance

Polarised views on remittances are linked to differing models of economic development along the traditional cleavages of neoclassical / liberal versus heterodox or structuralist economic theories. Yet, accumulated research on migration and development gives evidence, both theoretically and empirically, for the fundamentally heterogeneous nature of migration and its financial counterpart, the remittance flows. Their contingency on temporal and spatial analysis forbids any simplistic assertions on remittance-development interactions (see also de Haas 2010). Remittances may have positive effects on the standard of living of the migrants' families and on the economy of their countries of origin, depending on the circumstances. It is important to note that the 'remittance euphoria' that goes along with the perception of self-development 'from below' through transnational migrants and their money sent home shifts attention away from the relevance of structural constraints and the important role governance by the state and other actors may play in shaping favourable conditions for economic and social development in the global south.

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