A Note on Social Obligations, Accumulation and the Anti-Cyclical Properties of Immigrant Remittances

Leila Rodriguez
Department of Anthropology
University of Cincinnati
481 Braunstein Hall
Cincinnati, OH 45206, USA.
Email: leila.rodriguez@uc.edu, Phone: +1.513.556.5783

Abstract

Scholars and development stakeholders' growing interest in immigrant remittances stems from their potential as sources of capital accumulation and macro development. Remittances are less affected by the ups and downs of economic cycles than other capital flows and are more stable over time. This anti-cyclical property of remittances makes them particularly attractive during economic downturns, but is not fully understood. Explanations for why immigrants remit in the first place provide important clues into how remittance behavior changes during - and often continues despite – economic downturns. In this article, I explore different models of why immigrants remit, and the implications of each one for host country economic downturn remittance behavior. I argue that to fully understand the anti-cyclical property of remittances, research should incorporate multiple considerations regarding the remittance behavior of immigrants.

Keywords: international migration; remittances

1. The Anti-Cyclical Property of Remittances

Remittances are attractive as a source of macroeconomic development in part because of their anti-cyclical nature (Orozco, 2006). In the last decades they have grown in volume and importance, and are now considered the second-largest source of external funding for developing countries (Ratha, 2003). The actual volume of remittances sent depends on the number of immigrants, their income in the host country and their propensity to remit (Carling, 2005; Martin, 2006). Remittances are responsive to changes in interest rate differentials between host and home countries, government policies, economic activity levels in host and home countries, wages, political risk factors, and inflation rates (Agunias, 2006:21). Nevertheless, they are more stable than private capital flows and are less volatile in response to economic cycles (Buch and Kuckulenz, 2010; Neagu and Schiff, 2009; Ratha, 2003).

Remittances are especially stable in response to economic changes in the origin country, and may even increase during origin-country economic downturns (Ratha, 2003). In low-income countries immigrants may increase remittances to their families who depend on them for subsistence. Similarly, an origin-country economic downturn may encourage workers to immigrate, and they in turn would begin remitting to their families (Ratha, 2003). Even remittances intended for investment and not consumption can remain stable during origin-country economic downturns. According to Ratha (2003) because of a home country bias immigrants are less likely than foreign investors to withdraw their investments. More importantly, remittances also show some stability in reaction to host-country economic downturns. For those in formal-sectors jobs, the fiscal systems of developed countries often have stabilizers that offer some income protection to migrant workers during economic downturns (Ratha, 2003). In addition, even if immigrants lose their jobs and return home, they may bring savings with them. One recent study found that job stability among immigrants in Greece had no impact on their decision to remit. Immigrants bore the impact of fluctuations in employment and income and continued remitting in accordance with their goal of securing a steady flow of remittances to their origin country (Lianos and Cavounidis, 2010).

The recent global economic recession provides an opportunity to examine the anti-cyclical property of remittances. Early research suggests that the recession's effects on the remittance behavior of immigrants is mixed. While remittances on average fell only slightly, this effect was primarily driven by the continued growth of remittances to India and China (Papademetriou 2010). Most developing countries, in particular the Central American and Caribbean economies highly dependent on remittances saw a significant decrease in the remittances received (Papademetriou et al., 2010). These mixed effects suggest that the anti-cyclical property of remittances depends on a complex set of factors. The reasons why immigrants remit in the first place provide a starting point of analysis, as some of these reasons may be more resilient during economic downturns in host countries than others.

2. Why Immigrants Remit

Scholars have developed multiple explanations for immigrants' remitting behavior. Earlier explanations of why immigrants remit center on a dependence model. In this view, families in the origin country live at close to subsistence level, and rely heavily on remittances to meet their consumption needs (Ratha, 2003). This model provides an altruistic interpretation of remittance behavior, where the primary concern of the immigrants remitting is the wellbeing of their families in their origin communities (Carling, 2005).

A second model explains remittances in terms of self-interest. Immigrants send remittances to be used as investments and for accumulation or because it makes them eligible for inheritance or other resources in the origin community (Carling, 2005; Lucas and Stark, 1985). Of particular importance to this model of remittances behavior are immigrants' intentions of return (Becker, 1974). Osili's (2004) model of housing investment as signaling provide another model to explain general remittance behavior. In her view, housing investments (and I extend it to include remittances) provide benefits to the families in the origin communities by signaling immigrants' commitment to them, and improving their access to formal and informal markets. While this model is similar to the first one (self-interest), it differs in that the benefits accrued by the "signaling" can be potentially obtained exclusively by the family and not by the immigrant.

A fourth model explains remittances as informal contracts of insurance. In this view, family members in different locations reduce risk by sharing a portion of their income (Carling, 2005; Lucas and Stark, 1985). This model differs from both the self-interest and signaling models because in it, the flow of money is not unidirectional from the immigrant to a family member. Instead, this model implies that all family members pools a portion of their incomes so that money flows towards the immigrant as well.

Finally, Lubkemann (2005) developed an alternative model to explain why immigrants continue to remit and invest in their communities even when they have no intention of return. Unlike the previous ones, this model suggests that origin communities – and not immigrants themselves – initiate the motivation for remitting. In Lubkemann's model home communities seek to reduce the risk of losing the resources provided by immigrants. They develop a "moral economy" in which the actions of immigrants regarding their financial and migratory behavior are given a moral value. Immigrants continue to operate within this system of symbolic transactions and invest both in the material and moral economy.

All of these models of remittance behavior have different implications for the continuation of remittances during host-country economic downturns. The altruistic model exemplifies the circumstances under which remittances are most urgently needed. The need to provide for a family's basic subsistence needs is associated with the poorest origin societies. In addition, immigrants from these areas are likely to be poorer labor migrants, undocumented, and employed in the least stable occupations in the host societies. Therefore, they are the immigrants most likely to be negatively affectively by a host society economic downturn. Nonetheless, the urgent need for their remittances may motivate them to continue remitting under all circumstances. Both the self-interest and signaling models present situations where the use of remittances is not as urgent, and where there is no major negative consequence to the temporary cease of remittance flows. Origin societies providing the investment opportunities are likely not the poorest ones, and immigrants from these areas likely include skilled workers. Many of these migrant workers are probably employed in more stable occupations in the host society and able to continue remitting despite an economic downturn.

Immigrants may nonetheless cease to remit if necessary, knowing that the consequences of this are not as serious. For this reason, it is expected that remittances aimed at investment are more volatile than those aimed at subsistence (Ratha, 2003). In the insurance model, the pooling of resources is meant to diversify risk. This strategy anticipates negative events like an economic downturn and in fact prepares for it. Therefore, the level of remittances for immigrants involved in this strategy will likely decline, but with fewer negative consequences than in other cases. Finally, the moral economy model presents a situation where there is no intent of return. This nonreturn intent suggests that immigrants are faring off well in the host society and will probably not be the most affected by an economic downturn. In addition, they are likely to continue remitting given that their original motivation for remitting is not economic but social.

3. Considerations

The previous summary and implications of remittance behavior models offers a starting point to analyze how host country economic downturns can affect remittance behavior. To better understand the anti-cyclical property of remittances, , research can benefit from a framework that takes into account several additional considerations:

- Primary purpose of remittances: Whether remittances are intended to meet the subsistence needs of households or as investment strategies can influence whether immigrants will cease remitting when facing economic challenges themselves. In addition, during origin-country economic downturns, remittances used for accumulation can be diverted and used for subsistence.
- Return intentions: those who intend to return are less likely to be remitting for subsistence, and may cease doing so. In addition, the return may be accelerated by the host-country economic crisis.
- Cause of decline in remittances: declines in remittance flows can be caused by immigrants remitting smaller amounts, or immigrants ceasing to remit altogether. In the case that immigrants stop remitting, it is important to distinguish whether they remain in the host country or returned home, and both situations have different implications for post-crisis remitting behavior.
- Differentiate remittance patterns from other investments: remittances and other financial transactions are not the only investments that immigrants contribute to their origin communities. Through their participation in hometown associations, for example, immigrants contribute funds or service for home communities, participate in local politics, and do other work that affects the livelihood of their families in their origin communities. The effect of economic downturns on these activities needs to be assessed as well.
- Relationship between host and home country economies: the literature on the anti-cyclical nature of remittances distinguishes between host country and home country economic downturns. However, the economies of countries linked through migration flows are often linked in other ways too. The study of the impact of economic downturns on remittance behavior needs to account for how host country economic crises also affect the macroeconomy of origin countries.
- Mechanism of remitting: Although I focus on why immigrants remit as potential explanations of the anti-cyclical property of remittances, *how* immigrants remit can also influence remittance behavior in economic crises. Given the expense associated with formal mechanisms of remitting (e.g. bank transfers and money transfer agencies), those who rely on these may cease remitting or switch to less expensive but informal channels for remitting that are not as easily detected. Alternatively, immigrants who rely on formal mechanisms for remitting may be those better-off economically among the immigrant population, employed in more stable jobs, and less likely to cease remitting during a crisis.

References

Agunias, D.R. (2006). Remittances and Development: Trends, Impacts, and Policy Options. Migration Policy Institute,Washington, DC.

Becker, G. (1974) A theory of social interactions, *Journal of Political Economy*, 82,pp.1063– 1093.

Buch, C.M. & Kuckulenz, A. (2010). Worker Remittances and Capital Flows to Developing Countries. *International Migration*, 48(5)89-117

Carling, J., 2005. Migrant remittances and development cooperation. International Peace Research Institute, Oslo.

Lianos, T.P. & Cavounidis, J. (2010). Immigrant Remittances, Stability of Employment and Relative Deprivation. *International Migration*, 48(5)118-141.

Lubkemann, S.C. (2005). The Moral Economy of Nonreturn among Socially Diverted Labor Migrants from Portugal and Mozambique. In L. Trager, ed. Migration and Economy: Global and Local Dynamics. Walnut Creek: Altamira Press, pp. 257-287.

Lucas, R.E.B., & O. Stark (1985) ‘‘Motivations to remit: evidence from Botswana’’, *Journal of Political Economy*, 93, pp.901–918.

Martin, P.L. (2006). The Trade, Migration, and Development Nexus. In J. F. Hollifield, P. M. Orrenius, & T. Osang, eds. Migration, Trade and Development. Dallas, TX: Federal Reserve Bank of Dallas, pp. 11-34.

Neagu, I.C. & Schiff, M. (2009). Remittance Stability, Cyclicality and Stabilizing Impact in Developing Countries. The World Bank, Policy Research Working Paper 5077.

Orozco, M. (2006). Remesas y Migración: el rostro humano de la globalización. In G. Ardila, ed. Colombia: Migraciones, transnacionalismo y desplazamiento. Bogota: Universidad Nacional de Colombia, pp. 127-138.

Osili, U.O. (2004). Migrants and Housing Investment: Theory and Evidence from Nigeria. *Economic Development and Cultural Change*. 32(4), pp.821-849.

Papademetriou, D.G. et al. (2010). Migration and Immigrants Two Years after the Financial Collapse: Where Do We Stand?. Report for the BBC World Service.

Ratha, D. (2003). Workers’ Remittances: An Important and Stable Source of Development Finance. In T. W. Bank, ed. Global Development Finance. Washington, DC: The World Bank, pp. 157-175.