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REMITTANCES: POLITICAL ECONOMY AND DEVELOPMENTAL IMPLICATIONS

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Abstract: Private remittances are becoming an increasingly important part of the financial landscape of many developing countries. Indeed, for some such countries, these flows are the single most important type of international capital inflow—public or private–and they have become an important source of purchasing power and foreign exchange. The growing importance of remittances has stimulated a great deal of discussion among scholars and policymakers. However, most studies tend to be rather narrow and microeconomic in scope, and fail to understand remittances within a broader political economy context. This contrasts with studies of other international capital flows such as official development assistance, direct foreign investment, private bank loans, and portfolio investment where political economy concerns have long been a central concern. This paper draws together findings from the rapidly growing multi-disciplinary study of remittances; identifies what we know, what we do not yet know, and what we still need to know about their economic, political and social consequences; and argues that there are a range of important political economy concerns raised by these flows (such as public moral hazard). The current global economic crisis raises new questions for remittance researchers, not least of which is whether the established counter-cyclicality of these flows is giving way to pro-cyclicality. The paper concludes that the political economy effects of remittances are complex, contradictory, and not amenable to generalizations across the developing world, and that there is still much that we need to know about them.

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1. INTRODUCTION

Inflows of private remittances are becoming an increasingly important part of the financial landscape of many developing countries and, indeed, of entire regions. In 2008, recorded inflows of remittances to developing countries are estimated at US $305 billion. For many countries, remittances outstrip official development assistance (ODA), net exports, tourism receipts, foreign direct investment (FDI), and private debt and portfolio equity (PI). Remittances bypass the state and official aid bureaucracies,[1] are less volatile than other international private capital flows, and are counter-cyclical (or, at least they have been, up until the current global economic crisis).

In light of their empirical significance and features, it is understandable that a growth industry in the study of remittances has emerged alongside the growth in these flows themselves. Remittance studies have been taken up by policymakers and officials of multilateral institutions, by those working with non-governmental organizations and on behalf of migrant communities, and by social scientists–particularly development economists and anthropologists. In this literature, we principally find efforts to map remittances and to measure and leverage their microeconomic contributions. A widespread presumption in recent literature is that remittances are beneficial. Indeed, for a time, and especially in the policy community, it seemed that remittances were being positioned as the next great development panacea, following a professional tendency that Hirschman (1965) noted long ago.[2] The initial euphoria about remittances has subsided, and has given way to more nuanced assessments of their developmental contributions.

Recent literature on remittances also presumes that policy should mainstream them so that they flow through formal financial channels and that there are important reasons for reducing the costs of sending and receiving remittances. The on-going global economic crisis has stimulated new empirical work that forecasts the negative effects on individual countries and regions caused by the contraction in remittances due to the reduction in employment opportunities for migrants.

Despite the attention paid to remittances from many quarters, a vast body of literature in the fields of finance and economic development and international capital flows has largely ignored remittances. Indeed, to date, my own work in these fields has generally noted the existence of remittances, but then has proceeded to ignore them entirely. Scholarship on finance and development and international capital flows has focused on what have long been seen as the important and double-edged international flows—namely, ODA, private loans, FDI and, from the 1990s onward, PI. These types of international capital flows have long been studied by political economists and development economists, not least because of the controversies in which they are implicated. In the case of ODA, we find controversies over tied aid and critiques of the international aid bureaucracy; in the case of foreign loans, we find debt overhangs that lead to debt crises, bailouts, and structural adjustment programs that are conditioned by the International Monetary Fund; in the case of PI, we find speculative bubbles that increase the risk of financial crisis and the possibility of bailouts with attendant negative effects on national policy autonomy; and in the case of FDI, we find foreign ownership of domestic assets or strategic resources, the repatriation of profits to foreign investors, and the possibility that

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[1] This attribute is particularly important to skeptics of the state and aid bureaucracies [e.g., Adelman, 2003].
[2] This view of remittances contrasts with earlier work in this field (in the mid-1980s to the mid-1990s) that largely saw these flows as unproductive insofar as they were seen principally to fuel consumption, some of it wasteful and conspicuous, and much of it import-dependent. This pessimistic view is summarized in Durand,
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foreign investors exercise undue influence over national policy. Thus, each of these international capital flows is associated with diverse risks and channels by which external actors can constrain domestic policy autonomy [see Grabel, 1996].

In this paper, I attempt to bring remittance studies into contact with the kinds of political economy concerns that have traditionally characterized scholarship on international capital flows to the developing world, but which have largely been ignored in the remittance studies literature.[3] This paper draws together findings from the rapidly growing multi-disciplinary study of remittances; identifies what we know, what we do not yet know, and what we still need to know about their economic, political and social consequences; and argues that there are a range of important political economy concerns raised by remittances. One important political economy concern that is raised by remittances is their contribution to what I term public moral hazard. Specifically, remittances cause states in the developing world to reduce expenditures on public goods that have traditionally depended on public support–such as public investment in infrastructure–and on human capital and social services, and protect governments from the political consequences of poor policy choices and/or those that induce social dislocation.

To foreshadow the conclusion, there is still much that we would want to know about remittances. Nevertheless, at this preliminary point, we can already see that the political economy effects of remittances are complex, contradictory, and not amenable to generalizations (as is the case with other international capital flows to the developing world). Thus, we should not be disappointed or surprised to learn that remittances do not have uniform or unambiguous political economy implications for developing countries. What we perhaps should be wary of are general policy proposals that seek the promotion and management of remittance flows as a means to the advancement of economic development.

2. EMPIRICAL LANDSCAPE[4]

Officially recorded remittances to developing countries are estimated to have reached $305 billion in 2008, up from $281 billion in 2007 (see table 1).

<<TABLE 1 HERE>>

Experts in remittance data at the World Bank forecast that the slowdown in remittances that began in the 3rd quarter of 2008 will deepen in 2009 because of the global economic crisis. Indeed, as of this writing (at the end of the first quarter of 2009), remittance inflows to the developing world have already contracted sharply.

As we can see from table 1, the majority of remittances do not flow to the poorest developing countries. However, when compared to GDP and import income, remittances are relatively more important to low-income than to middle-income countries. Remittances are far less concentrated in large developing economies than are other types of international private capital flows.

In 2007, remittances were more than twice as large as ODA inflows, and nearly half as large as FDI and PI. In many developing countries, recorded remittances are the largest source of external finance of any sort. And, for many small countries, remittances are the main source of income. The importance of remittances relative to other international capital flows to developing countries is expected to continue into 2009, not least because FDI, PI and ODA to

[3] There are a few exceptions within remittance studies— for instance, Burgess [2007], Julca [2008], Kapur [2004], and Nayyar [2008] examine some political economy issues raised by remittances. Dilip Ratha of the World Bank has generated authoritative and wide-ranging empirical studies that are principally responsible for the explosion of interest in remittances by academics and policymakers.

[4] See Grabel [2008: section 2] for a detailed discussion of remittance data, including discussion of problems with these data.

the developing world may well contract even more dramatically than remittances [Ratha, Mohapatra, Xu, 2008].

Moreover, remittances are less volatile than other international private capital flows. They are also counter-cyclical. The counter-cyclicality of remittances contrasts with all other international private flows that are strongly pro-cyclical. Remittances are a form of self-insurance in developing countries. The insurance function is reflected in the tendency of migrants to send more remittances to their countries of origin following downturns in the economy, crises, natural disasters, and/or political and civil conflicts [Ratha, 2007]. Up until the current global economic crisis, there was some evidence that remittances remained stable when there was an economic downturn in the sending country [Ratha, 2003:163]. But at present, the depth and the synchronization of the crisis is causing remittances to exhibit pro-cyclicality.

3. THE STATE OF KNOWLEDGE: THE ECONOMIC, POLITICAL AND SOCIAL EFFECTS OF REMITTANCES

In what follows, I examine some of the diverse and cross-cutting economic, political and social consequences of remittances. In each case, I highlight areas of consensus among researchers and identify those areas where investigation is warranted. Space constraints prevent consideration of the full range of economic, political and social effects of remittances, but such an examination may be found in Grabel (2008).[5]

3.1. Savings, private investment by small businesses and agriculturalists, and investments in human capital

There is unambiguous evidence that once basic needs are met, remittances are used for savings, debt repayment, consumer durables, land and housing purchases, small enterprise development and agriculture, and investments in education and healthcare [Sander, 2003; Ratha, 2003]. Indeed, these effects are largely responsible for the enthusiasm about remittances among policymakers.

It is clearly important that remittances support these investments. But these achievements must be placed into a broader context. It is widely known that the formal banking system and the state in the developing world have long underserved the poor, small business and agriculture, as far as the provision of credit. This problem has become more severe in the neo-liberal era as states have dismantled long-standing programs that provided some assistance through the provision of working capital at subsidized rates. And so, it may be that remittances now patch over the gaps in public funding and bank financing that have grown ever larger thanks to neo-liberal policy.

States in the developing world have also long under-invested in human capital. But this situation, too, has become far more severe in the neo-liberal era when state support for education and public health has been curtailed radically and essential public services have been privatized. Though the hard numbers have yet to be assembled, it is reasonable to assume that these large shortfalls in support for small business, agriculture and human capital could not possibly be filled by remittances. In this connection, it is worth recalling that the poorest countries do not receive the majority of remittances, and they remain rather concentrated in some parts of individual countries.

[5] Grabel (2008) discusses the effects of remittances on many areas not covered in this paper—namely, poverty, inequality, consumption, the financial services industry and financial development, social effects, and several political effects that have been omitted here for reasons of space. Extensive citations to the remittance studies literature may be found in this paper as well.

In this context, it is important to learn whether remittances create a public moral hazard on the part of developing country governments. That is, by partially resolving important bottlenecks, do remittances actually encourage states in the developing world to ignore their traditional responsibilities because they perceive (or hope) that remittances will fill various voids? Thus, the critical questions for remittance researchers are: do governments in developing countries curtail their expenditures on human capital once their countries begin to receive high and stable levels of remittances? If so, then the beneficial effects of remittances on the accretion of human capital could be diminished. Second, if there is a moral hazard, how great is it, and what are the factors that condition the size of this effect? The possibility that remittances may induce or aggravate public moral hazard is a matter that deserves serious consideration, as is the extent to which remittances induce changes in state behavior in ways that allow for risk shifting onto the most vulnerable segments in the population.

3.2. Public investment in infrastructure and other public projects

There is unequivocal evidence that remittances support some public investment by providing capital for health clinics, land, wells, irrigation, equipment, and schools in particular communities [Kapur, 2004; Ratha, 2003].

Most of the financing for public investment by remittances comes from organized "Home Town Associations" of migrants that have pooled and channeled remittances for public projects in their towns of origin. The Mexican government tried to leverage these remittances through an evolving matching program. Beginning in 1993, the Mexican state of Zacatecas introduced the "*Dos por Uno"* program, in which both the federal and state government matched one dollar that home town associations contributed to development projects in Zacatecas. In 1999, the program expanded to include local governments and became the "*Tres por Uno"* program, encompassing several Mexican states. In 2005, Mexican home town associations raised about $20 million for development projects throughout the country, which was matched by $60 million in Mexican federal, state and local government contributions [Orozco and Rouse, 2007]. In El Salvador, the national development agency developed a similar program to match the funds of Salvadorean home town associations.

The Mexican government's effort to leverage the contributions of its home town associations has been widely praised, though the match had to be suspended because the state budget for the program was depleted because so many associations applied for the match [Chi, 2008: p. 519]. However, some analysts suggest that the public projects financed by collectivized remittances may not be optimal from a developmental perspective because, for example, they facilitate future migration instead of enhancing the economic vitality of the community itself (by providing job training that can be better utilized elsewhere) [Kapur, 2004; Burgess, 2007].

Home town associations are not just a Mexican or Salvadorean phenomenon. A study by Orozco and Rouse [2007] details the activities of associations of Mexicans, Salvadoreans, Guyanans, Jamaicans, Ghanaians, Filipinos, Malaysians and Brazilians. To date, studies of home town associations are not conducted with sufficient rigor to allow us to assess the scale of the positive contribution made by remittances to public investment across the developing world. Until such data are available, we can only assume that the effect of remittances on public investment is necessarily localized.

More importantly, it is vitally important that analysts investigate whether state behavior in developing countries is influenced by remittance-financed public investment. If remittances catalyze public investment that would not otherwise occur, then naturally the net effect is positive. But if remittances crowd-out public investment by inducing a public moral hazard, then their contribution may be marginal or even negative. To date, we are not in position to say much about whether the programs that some governments have introduced to increase and mobilize remittances actually represent a net increase in public financing for public projects. It may be that these new institutional forms mask a net reduction in public finance. Public moral hazard might unfold behind the backs of those sending and receiving remittances.

3.3. Remittances and economic instability

A very interesting role played by remittances is that they function as a form of social insurance that sustains consumption and household investments in human capital by providing critical income support after economic, financial and political crises and natural disasters [World Bank, 2006]. The material support provided by remittances to the vulnerable during crises is an achievement that cannot be dismissed. But, in my view, the relationship between remittances and economic shocks is more complex than is generally understood.

One aspect of this complexity concerns the relationship between remittances and the neo-liberal regime. In this environment, states have curtailed the social programs and public institutional arrangements that traditionally helped the vulnerable to shoulder shocks (and, indeed, in some cases, reduced the likelihood that these shocks would even occur). In the absence of public shock absorbers, remittances function as private mechanisms that displace the burden of adjustment to shocks onto transnationally-dispersed family networks. Moreover, neo-liberalism creates an environment wherein shocks become more frequent and severe, and thus where the shock absorption role of remittances becomes all the more necessary.

Though remittances clearly have played the role of shock absorber in a great many countries, there are a few cases were remittances are actually an independent channel of destabilization. The case of Albania is particularly interesting in this connection, as research by Korovilas (1999) makes clear. Remittances from Albanians working in Italy and Greece fueled pyramid schemes in the country during 1995-96. These remittance-financed pyramid schemes attracted deposits equal to almost ½ of Albania's GDP in 1996. The pyramid schemes collapsed in 1997, leading to serious economic and political destabilization, which was only stabilized by a new round of migration and remittances from Albanians. This case suggests that there is a need for empirical research that examines whether remittances have induced speculative bubbles elsewhere.

Finally, by linking the economies of nations so closely, remittances can be seen as yet another channel of contagion that transmits economic instability or contraction from one country to another. Mutume [2005] describes precisely this dynamic between Burkina Faso and Côte D'Ivoire. The economy of Burkina Faso contracted quite dramatically when remittances dried up from Côte D'Ivoire, where many Burkinabè work, following the crisis in Côte D'Ivoire. Kapur [2004] describes how the expulsion of Indonesian labor from Malaysia and Thailand during the Asian financial crisis exacerbated instability in SE Asia, increased tension between countries in the region, and weakened ASEAN. At present, the recession in the USA is having a serious negative effect on the economy of Mexico and countries in Central America, not least because migrants from the country are unable to find employment (in construction, agriculture and the service sector), and many have returned home voluntarily, while others have been returned forcibly.

On the issue of forcible deportation, there are some interesting issues that warrant investigation. It is obvious that remittances end with forcible deportation, but what we are also starting to see is that the slowdown of remittances is triggering housing market crises in the developing world because remittances are so often used to support home and land purchases in migrants' country of origin. In addition, there is anecdotal evidence from El Salvador that forced deportations have also placed the Salvadorean state under considerable pressure because it is now faced with the challenge of providing healthcare and education for returnees, as well as with generating the growth necessary to provide them with jobs.

The Mexican and El Salvadorean cases suggest the need for future research that investigates the degree to which remittance dyads are vulnerable to co-variant shocks involving the transmission of economic contraction and instability across borders. The discussion of El Salvador suggests another direction for research on remittances and the state (that is distinct from our earlier suggestion that remittances may induce public moral hazards). Future research should investigate whether the curtailment of remittances places particular burdens on states in developing countries at precisely the time that they can least afford to bear them.[6]

3.4. Public sector borrowing costs and credit ratings

An unexpected effect of remittances is that they have been used in some countries to lower government borrowing costs and lengthen debt maturities on public issues via complex transactions that securitize future flows of remittances. Remittance-securitized bonds have been issued on terms that are considerably less costly to the government than non-securitized public bonds, and they receive higher credit ratings, something that gives the government access to a wider range of investors.

Brazil, El Salvador, Mexico, Panama and Turkey have securitized remittances along with other "future-flow receivables," such as telephone and credit card receivables. (Ketkar and Ratha 2009). In the case of El Salvador, remittance-backed securities have received investment grade ratings, two to four levels above the country's sub-investment grade sovereign rating. Mexico, El Salvador, and Turkey raised about $2.3b during 1994-2000 using this financing strategy. Ratha, Mohapatra and Plaza [2008] note that the African Export-Import Bank has been active in facilitating future flow securitization since the late 1990s. The same study estimates that Sub-Saharan Africa could raise $2 billion annually by securitizing future remittances.

It is quite easy to see the benefits of securitizing remittances to developing country governments. But there are significant obstacles in the way of more widespread use of securitization. Not least of these obstacles is the fact that there are high, fixed legal costs associated with structuring these deals. Moreover, the benefits of greater access to credit at more favorable terms must be weighed against the costs of greater debt burdens and the addition of inflexible securitized debt.

Today's global financial crisis makes clear that policymakers in developing countries should exercise extreme caution when considering further securitization of remittances or any other future flow. The benefits of greater access to cheaper credit afforded by the securitization of remittances must be weighed against the costs of greater public sector debt burdens. The addition of inflexible securitized debt may further narrow the policy space available to developing country governments. Moreover, the current global financial crisis highlights the risks and financial fragility induced by complex financial innovations like securitization that rapidly increase liquidity, even in mature financial markets. Indeed, one is reminded here of Hyman Minsky's 1987 observations about the macroeconomic costs incurred by acting on the view that "that which can be securitized, will be securitized" [cited in Minsky, 2008: p.2].

3.5. Labor force participation and labor markets in remittance-receiving countries

A few studies find limited evidence that the receipt of remittances reduces labor force participation in recipient households. This phenomenon tends to be described in terms of

[6] To date the literature on remittances has taken little notice of the political and social upheavals caused by the diminution of remittances due to forced deportations. Van Hear [2003] briefly notes that the curtailment of remittances could lead to socio-economic or political upheaval and even the resumption or provocation of conflict. This is a matter that clearly warrants further exploration by scholars.

moral hazard or a "culture of dependence" that develops once households come to expect remittances.

Chami, Fullenkamp and Jahjah [2005] is the most widely cited study of moral hazard and remittances. They find that remittances discourage work effort on the part of recipient households that chose "leisure" over labor, and that the reduction in labor effort may translate into reduced economic growth. A few studies have found that the negative effect on labor force participation is greater for women than for men in particular countries (e.g., Amuedo-Dorantes and Pozo [2006] find support for this phenomenon among women in rural Mexico).

In my view, it is mistaken to think of the shifting work burdens that remittances may bring about as an instance of moral hazard. First, reduced labor force participation by some remaining family members (particularly, children and mothers without access to daycare) is at the heart of the bargain involved in the decision to send a family member abroad to work. This might better be thought of as an altogether appropriate, integrated strategy for the household, rather than a strategy by some family members to take advantage of others. Second, there may be good reasons to celebrate a backward bending supply of labor by some family members, particularly in light of evidence that the incidence of infant mortality is reduced by declines in labor force participation by mothers [Duryea, et al., 2005], and other research that finds that remittances reduce labor force participation and increase schooling among children in the Philippines [Yang, 2003]. We should keep in mind in this connection that women face substantially greater work burdens than do men across the developing world, especially once work in the informal sector is properly taken into consideration. We might therefore welcome the leveling effects of remittances on household labor contributions.

Finally and alternatively, it is also possible that in some cases reduced labor participation by remaining family members may have little to do with personal choice and much more to do with structural factors. For instance, "employment deserts" may arise in communities or regions that experience large-scale migration and are left with no viable local economy. Relatedly, Kapur [2004] suggests that remittances create vast "migra-villages" whose subsistence comes to depend on remittances.

To date, the general effect of remittances on wage levels in the home economy has not been addressed by empirical research. Even when investigated, this matter is not likely to be resolved unequivocally since the effect of remittances on wages depends very much on the skill profile of emigrating workers, itself a matter of much controversy. The effect of emigration on wages in the home economy is complicated further by the fact that migration patterns change over time and vary within and across countries. Another related matter that has not been addressed is whether the receipt of remittances increases the reservation wage of those remaining in the home country.

3.6. Long-term economic growth

The vast majority of studies find limited or contradictory evidence of a causal link between remittances and long-term economic growth.

A few studies conclude that there is no evidence of a positive relationship between remittances and long-term growth. For instance, one recent large-scale study using data from 101 developing countries from 1970-2003 found no significant link between remittances and per capital income growth [IMF, 2005]. Chami et al. [2008] conclude as well that remittances have no statistically significant effect on GDP growth because they neither increase investment nor lead to a more efficient allocation of investment.

In contrast, several single-country studies (Albania and Mexico) and one regional study of Andean countries claim unequivocally that remittances do promote growth.

One widely cited study by Chami, Fullenkamp and Jahjah [2005] finds that remittances have a negative effect on growth. This study of 113 countries over twenty-nine years finds that remittances reduce growth, principally because they discourage work by recipients.

It is not likely that further empirical research will generate a consensus on the link between remittances and growth. This is because research must first resolve a rather large number of methodological and empirical issues that do not lend themselves to certainty, such as how to measure the diverse multiplier effects and leakages associated with remittances, how migration affects labor markets and hence wages in sending countries, the characteristics of emigrants and of the households that receive remittances, and whether emigration is a temporary response to an economic shock or is instead a permanent response to existing opportunities and constraints. The answers to these questions condition the effects that remittances will have on economic growth.

For example, if remittances primarily go to the poorest households, they will be used for subsistence consumption rather than investment. If emigrants are primarily drawn from the high-skill segment of the labor pool, then they may have a negative effect on economic growth (because output in the country of origin suffers, and because these workers cannot be replaced without training, an activity that requires both time and resources) [Nayyar, 2008]. If emigration is temporary (or the commitment to send remittances only extends for a limited time), then remittances provide a transitory boost to consumption, investment and/or growth [Solimano, 2004]. But if commitments to send remittances are long-term in nature, then the effect of remittances may be more sustained. And, the extent to which remittances can raise economic growth in the short- or medium-term depends on whether the increase in consumption associated with remittances induces an increase in imports and/or inflation, and whether the departure of migrants reduces domestic output [Nayyar, 2008]. Further complicating research on the relationship between remittances and growth is the fact that the effects of remittance-financed investments in physical assets and human capital are necessarily indirect and long-term.

Finally, the precise nature of the migration dyad will condition the effect of remittances on economic growth. If a greater proportion of total migration is South-South as opposed to South-North in nature, then remittances can be expected to have smaller effects on economic growth in migrant-sending countries. This is because there is some evidence that remittances that stem from South-South migration have smaller multiplier effects on the economy than do those associated with South-North migration [Ratha and Shaw, 2007]. The one study of the subject suggests that those who travel to other developing countries for work earn lower wages, are more likely to migrate for short periods, are subject to greater exploitation, and are more likely to be expelled than those who migrate to wealthy countries [Ratha and Shaw, 2007]. However, it is difficult to determine the true scale of South-South migration since so much of it is undocumented.

3.7. The Dutch disease

The Dutch disease has traditionally referred to the currency appreciation caused by sudden, large capital inflows to a country with floating exchange rates. This appreciation can undermine export performance. There is some evidence that remittance inflows induce a Dutch disease effect, though there is still controversy about the matter.

Some analysts argue that remittances have induced strong Dutch disease effects [Fajnzylber and López, 2007]; others conclude that this effect is particularly important in small countries, where remittances are very high in proportion to the size of the economy [Kapur, 2004]. Other studies take the view that remittances induce smaller Dutch disease effects than do other types of international capital flows. It is argued that this is because remittances tend to be stable, persistent and grow gradually over time [World Bank, 2006]. Therefore, the effect on exchange rates is less significant than with other types of capital inflows that are prone to windfall effects and/or are cyclical in nature. One study stands as an outlier in the literature: Rajan and Subramanian [2005] find no evidence that remittance flows undermine growth by negatively affecting export competitiveness.

Obviously, the matter of whether remittances induce a Dutch disease effect warrants further empirical research. But, in my view, it seems reasonable to conclude that large inflows of remittances, especially over a short period of time, necessarily have the same effect on the exchange rate as do other surges in international public or private capital inflows.

3.8. Brain drain versus brain gain

To date, there has been limited examination of whether remittance inflows and the possible accretion of skills garnered by working abroad (i.e., "brain gain") ultimately offset the output and social losses associated with a reduction in a country's supply of skilled labor (i.e., "brain drain").

Two studies conclude that the benefits of brain gain partially offset brain drain [Ratha, 2003; Adams, 2003]. This is because the country of origin may benefit over time from the networks and knowledge that skilled workers develop abroad [Ratha, 2003], and from the economically beneficial effects of the remittances, investments, trade relations, and attitudes that may accrue to the country of origin in the medium and long-run [De Haas, 2005]. De Haas [2005] also concludes that the prospect of moving abroad stimulates the incentive to study among those that remind behind, and that the export of skilled labor is seen by some governments as an export product that generates remittance inflows. In the latter case, he points to the example of the Philippines where national investment in nursing education is an integral component of the state's export and remittance strategy (see discussion in section 3.9).

A few other studies reach the opposite conclusion on brain gain, drain, and remittances. Kapur [2004] and Nayyar [2008] argue that there are many reasons to expect that brain gain will not offset even partially the negative long-term economic effects of the loss of human capital embodied in a country's most educated workers. One reason for this is that capital flight generally precedes brain drain. Thus, a country loses not just skilled labor, but also financial capital, two factors that are essential to development [Kapur, 2004]. Moreover, the loss of a country's most educated and/or skilled workers reduces the productivity of those left behind, especially since the skilled labor that leaves the country cannot be replaced immediately without costly and time-intensive training [Nayyar, 2008]. In addition, the brain drain and the creation of economic deserts may provide a disincentive for governments in the sending countries to invest in transportable human capital, since the benefits of such investment will accrue primarily abroad.

There is today no clear consensus among the few analysts who have studied the relative costs of brain drain versus brain gain. In my view, the long-term economic and social effects of brain drain are unlikely to be offset fully by the beneficial effects of brain gain and the inflows of remittances associated with emigration by skilled labor. Not least are the difficult to measure but no doubt enduring social and political consequences of losing a country's most educated and skilled citizens. This loss may degrade the quality of civic life and political "voice" (in the sense of Albert Hirshman [1986]) by removing those most capable of being efficacious advocates of governance improvements in the country. Making matters worse, De Haas [2005] suggests that remittances may give recipient families the means and incentive to withdraw from social and economic activities in their country of origin because they are economically insulated from its problems. If this is correct—if the exit afforded emigration also extends to the families they leave behind—then we may find in some contexts that those most dependent on public services and are left alone to fight for good governance.

All of this calls for case studies that feature careful empirical research, to be sure. But as with so many of the matters before us, the pathways by which the brain drain and brain gain associated with migration and remittances affect development are terribly complex, with effects that are both short-term and long-term, and direct and indirect. We should not anticipate clarity on this matter anytime soon, or uniformity in effects as we move from case to case.

3.9. Political effects of remittances

There is very little research undertaken to date on the political consequences of financial engagement via remittances sent by diaspora communities. The Philippines, Eritrea, Mexico and India have active policies that specifically aim at keeping diasporas engaged with the country through remittances (as well as other types of international capital flows) [see Newland and Patrick, 2004].

The governments of the Philippines and Mexico have had an active policy that targets remittances. In the case of the Philippine government, it appears that a policy aimed at maximizing the inflow of remittances is being conflated with the articulation of a publicly-funded national development policy. The Philippine government seeks to maximize the income stream of remittances to households through various programs and services that facilitate international migration. Earlier we discussed the Mexican government's effort to promote collectivized remittances through matching programs.

Other countries have sought to harness the financial contributions of their diasporas through other channels. One such channel is through the sale of diaspora bonds. For example, the Indian government has for some time been selling diaspora bonds as a vehicle to support the government budget and to keep the diaspora financially engaged with the country. India has raised $11 billion from diaspora bonds [Ketkar and Ratha, 2009]. The Eritrean government has attempted to direct individual remittances into government channels.

As beneficial as the remittances from diasporas can be as a source of finance, it is important to investigate the complex and contradictory role of this resource in supporting existing political and/or economic regimes and in fueling some conflicts. On the one hand, remittances from the Philippine diaspora were thought to provide crucial support to pro-democracy forces that ultimately toppled Marcos [Agunias, 2006]. But, in other cases, the effects have not been so benign. Remittances have been used to provide funding for civil and border wars and have also provided crucial support for some secessionist movements. There has been some research on this matter that deals with the Sri Lankan Tamil diaspora in the UK, the Indian Hindu diaspora, and the Eritrean diaspora in connection with the border war with Ethiopia [Van Hear, 2003; Seddon, 2004]. There is much for that needs to be done not only to substantiate these claims, but also to investigate their broader relevance. In particular, it is important to know if remittances leverage the political voice of diaspora communities unduly relative to those who at home.

Research on remittances and domestic politics should also consider their effect on national economic policy choices. There are some reasons to expect that the Dutch disease and other economic effects of remittances make it harder for a government to sustain particular policy regimes, such as export-oriented growth. However, there are other cases that suggest that remittances can actually protect national governments and particular sectors from the consequences of misguided policy decisions. (Interesting discussions of the insulating effect of remittances appear in Agunias [2006] and citations therein, Julca [2008], and in the theoretical model of Chami et al. 2008) In this connection, we can think of the protection that remittances offer to governments as the public sector equivalent of the social insurance function that they play for households. Thus, the support provided by remittances makes it possible for governments to overlook the problems that lead to migration and the dislocation induced by neo-liberal policy.

There are still other political economy issues raised by remittances. Control over remittances has figured into the foreign relations strategies of Cuba, has figured into the Israeli-Palestinian conflict, and, in the post-9/11 context, and into conflicts between the US and Somalia and the US and Pakistan [Kapur, 2004].

One final political economy issue is whether recent recognition of the empirical significance and self-insurance aspect of remittances is having an effect on the proclivities of wealthy countries as far as ODA? That is, do we have a reversal of the usual "crowding out effect"—in this case, are remittances (a private flow) discouraging ODA (a public flow) by providing a rationale or justification for governments that may already have political reasons to curtail ODA? In this context, I should note that skeptics of ODA and of international aid bureaucracies have embraced remittances as part of what has been called the new "privatized foreign aid" (Adelman 2003).

4. CONCLUSIONS

We have seen that there is still much that we need to know about the diverse economic, social and political effects of remittances. The evidence available to date on the effects of remittances remains sketchy in key respects. Given the nature of remittances, there will likely always be gaps and inconsistencies in the data, and these might be substantial relative to the reported flows. We will always therefore have to exhibit some caution when we draw conclusions about what is happening, and equally, about policy measures that are designed to promote the most developmentally beneficial use of remittances.

Nevertheless at this preliminary point, we can already start to see that the political economy effects of remittances are complex, contradictory, contingent upon many, many factors that vary from cases to case, and so are not amenable to generalizations. In this sense, remittances carry with them complexities that are no less significant than those that have been illuminated by the study of other types of international capital flows. Thus, we should be neither disappointed nor surprised when future research reveals that remittances do not have uniform or unambiguous political economy implications.

Finally, we should also not be surprised to learn that conventional wisdom on the developmental role of remittances may change dramatically as a consequence of the current global economic crisis. In the context of the crisis, it appears that remittances are behaving pro-cyclically, making them more like other international private capital flows. This suggests that those members of the policy community who, just a few years ago, celebrated the developmental impact of remittances may be compelled now to recognize that these and other international private capital flows are neither substitutes for ODA nor for economic development strategies that mobilize and channel domestically-generated resources in the service of development.

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Table 1. Migrant Remittances to Developing Countries (US$ billion, current dollars)*

INFLOWS	1990	2000	2002	2006	2007	2008 est.	Change 2002-07	Remittances as a share of 2007 GDP (%)
-All developing countries	31	84	116	229	281	305	142%	2.1%
By country income group:								
-Low-income countries	5	8	15	31	40	45	166%	5.9%
-Middle-income countries (MIC)	26	76	100	198	241	260	141%	1.9%
-Lower MICs	16	53	71	126	161	179	126%	2.5%
-Upper MICs	10	23	30	72	80	81	166%	1.3%
By regions:								
-East Asia and the Pacific	3	17	29	53	65	70	116%	1.6%
-Europe and Central Asia	3	13	14	38	50	53	257%	1.8%
-Latin America & the Caribbean	6	20	28	59	63	63	125%	1.8%
-Middle East & N. Africa	11	13	15	26	31	34	106%	4.5%
-South Asia	6	17	24	40	52	66	116%	3.7%
Sub-Saharan Africa	2	5	5	13	19	20	280%	2.6%

*Workers' remittances, migrant transfers and compensation of employees. Source: World Bank, Development Prospects Group (WB-DPG), http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/RemittancesData_Feb09-Releasev2.xls