International labor migration as a strategy of economic stabilization at the household level in Mexico and Central America

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Abstract

This paper looks at international migration and remittances as a strategy of economic stabilization. It examines the stability of these flows at the macro level and questions the stability and the actual flows in the official statistics. Controversy still exists between academics, bank officials and multilateral organizations about the true size of these flows. Mexico is a good case study because it is the largest recipients of remittances in Latin America and it has one of the best accounting methods. Yet, questions remain about official flows and the lack of a clear methodology for capturing collective remittances and even social remittances. It is also important to understand that the failure of neo-liberal policies to spur sustained economic growth and employment is in turn a cause of increased migration and consequently increased remittances. The relationship between migration and neo-liberal policies must be closely examined before turning to remittances as a panacea for development.

Key words: international migration, remittances, social remittances, neo-liberal policies, poverty, Mexico, Central America.

Resumen

Migración laboral internacional como estrategia de estabilización económica en hogares de México y América Central

Este trabajo mira la migración internacional y las remesas como estrategia de estabilización económica. Examina la estabilidad de estos flujos a nivel macro y cuestiona la estabilidad de los flujos reales en estadísticas oficiales. Hay aun controversia entre académicos, banqueros, y organizaciones multilaterales acerca del verdadero volumen de estos flujos. México es un buen estudio de caso pues es el receptor de remesas más grande en América Latina y tiene uno de los mejores métodos de contabilidad. Aun así, quedan preguntas acerca de los flujos oficiales y la falta de una clara metodología de captura para las remesas colectivas e incluso remesas sociales. Es importante también entender que la falla de las políticas neoliberales para influir en el desarrollo económico sostenido y generación de empleos es en cambio, una causa del incremento en la migración y en consecuencia el incremento de las remesas. La relación entre migración y las políticas neoliberales debe ser examinado detenidamente antes de mirar a las remesas como panacea del desarrollo.

Palabras clave: migración internacional, remesas, remesas sociales, políticas neoliberales, pobreza, México, América Central.

Globalization has brought about an increase in the flow of goods and services, money, ideas, information as well as people. Although the mobility of labor has not been equally embraced by receiving nations, the last two decades have witnessed a steady increase in the movement of people especially from developing to developed countries. These movements of people have given rise to another important flow in the reverse direction; namely, financial flows sent by migrants abroad to their home countries commonly known as remittances.

Remittances are broadly defined to comprise all sums of money from current income and savings transferred by residents working abroad to their home country but it is important to recognize at the onset that migrants also send non-monetary remittances; yet, data collection of non-monetary flows lags behind that of monetary flows. Furthermore, remittances cannot anymore comprised only individual transfers but they also involve migrant groups who send "collective remittances" earmarked for community projects. Some researchers take an even broader view of remittances and also look at broader exchanges brought about by migration such as ideas, practices, identities, and social capital that flow from receiving to sending countries and they referred to them in general as "social remittances" (Sorensen: 2004).

According to UN figures, international migration now numbers about 191 million people in 2005 while money flows sent by migrants (remittances) back to the countries of origin increased from US$102 billion to an estimated US$232 billion in 2005 (United Nations, 2006). At the macro level, remittances are an important source of foreign exchange ranking higher than other sources such as official development assistance, and commodity exporting and in most cases only behind foreign direct investment. At the macro level, remittances serve to close trade deficits and more recently attention has been focused on their role in providing a basis for long-term development in migrant sending regions. At the household level, remittances improve the living conditions of many poor households providing additional income to raise many of them above the poverty level. Migrant remittances have financed small enterprises as well as augmented education and health expenditures.

The Latin American region is a very good case study of the effects of remittances because it receives the largest share of these flows. According to the Inter-American Development Bank, remittances to Latin America reached about US$ 32 billion in 2002 and they were around US$ 45 billion for 2004. In absolute terms, Mexico receives the largest flows totaling around $US20 billion in 2005, an amount equivalent to three percent of Mexico's GDP (Canas *et. al*., 2006). In relative terms, small Central American and Caribbean countries like El Salvador and Nicaragua can reach remittance flows equivalent to 60-70 percent of their exports. World rankings indicate that Jamaica, El Salvador and Nicaragua are among the top 10 countries in the world in terms of remittances as a percentage of GDP. If we also include Honduras, Dominican Republic and Guatemala, there would be six countries in the list of the top 20 countries in remittance flows as a percentage of GDP.

The stability of remittance flows

Remittances seem to be a strategy of economic stabilization; therefore, it is important to explore the overall stability of these flows. It was only a few years ago that most academics and policy-makers were criticizing remittance flows because they were thought to be unstable, unpredictable and unreliable as a source of economic growth and development (Ratha, 2005). This was particularly troublesome because remittances tend to be significantly higher as a share of GDP and other macroeconomic indicators in low-income countries already characterized by unstable financial flows such as foreign aid and foreign direct investment. But recently a study by the World Bank states that remittances are "more stable than private capital flows, which move pro-cyclical thus raising incomes during booms and depressing them during downturns. By contrast, remittances are less volatile-and may even rise in response to economic cycles in the recipient country" (Ratha, 2005). Moreover, predictions about future remittance flows are mainly optimistic and they tend to forecast a significant rise in the flow of remittances as developed countries get over their sluggish labor markets and new travel guidelines are straightened out.

But there are good reasons to be cautious about the size and the stability of remittance flows. Mexico is considered to have the best statistics on migration and remittances in the American continent. Yet, there is continuing debate about the quantification of remittances. The debate over the number of migrants dates back to the 1930s when the seminal work of Manuel Gamio (1930) disputed the then available estimates of the number of Mexican migrants based on U.S. Census data for 1930. Since then there has been a sort of "numbers game" that has gained notoriety in recent years. In 2005, Mexican major newspapers reported on an ongoing debate between the Mexican Central Bank, the National Population Council and the Ministry of Social Development over the yearly flow of remittances. While the Central Bank reports a yearly figure of approximately US$ 16 billion for 2004, the National Population Council and the

Ministry of Social Development argue the actual figure is closer to US$ 10 billion ((Ratha, 2005). Thus, the "numbers game" continues.

The Inter-American Development Bank has sponsored over the last two years a series of studies to measure these flows in different countries in Latin America. The results have been well publicized in their website and through a series of in-country presentation of results to the public at large in several Latin American cities.[1] Data from these studies for the Mexican case indicate that the flow of remittances to Mexico in 2003 was close to US$ 14.5 billion which is close to the Mexican Central Bank official figures for the same year reported at US$13.4 billion.[2] But academics at *El Colegio de la Frontera Norte* have joined representatives from the Mexican National Population Council and the Mexican Social Development Ministry to dispute the Central Bank figures. Academics outside the Central Bank believe that the figures are close to half of that reported by the Central Bank based on empirical research using different socio-economic surveys such as the Population Dynamics survey, the income and expenditure survey, and the migration to the northern border survey at *El Colegio de la Frontera Norte*. In addition, these researchers cite the U.S. Commerce Department estimate of flow of remittances at US$ 9.6 billion for 2004. These discrepancies seem to be too large to be justified only by different accounting methods. As stated in Zárate-Hoyos (2005), "Although all surveys have their particular shortcomings, there seems to be sufficient discrepancies to warrant further investigation… The quantitative nature of this bias is yet to be explored".

Thus, caution should be exercised on quantitative estimates of remittances that may overstate the flows going to low and middle-income households in receiving countries raising false expectations as to their development potential. Moreover, better accounting systems will make these flows more visible and will allow a better understanding of their destination. Recently, "the Central Bank reports that the state of Chiapas receives three percent of all remittances, even though Mexico's national statistics agency found that Chiapas accounts for only half of one percent of Mexican households that receive money".[3] Nonetheless, it is clear that increasing flows have been received in sending communities and because these flows are geographically concentrated in certain regions, the continued prominence of remittances in the political discourse in some regions warrants skepticism.

[1] For example, the next two are scheduled to be held in La Paz and Lima to present the results of the Bolivian and Peruvian case. See http://www.iadb.org/mif.
[2] Mexican Central Bank, Annual Report 2004.
[3] Banco de Mexico, Annual Report 2005.

The discussion about the quantification of remittances centers mostly about official family flows. There is a lack of studies attempting to systematically quantify collective remittances sent by hometown associations as well as informal remittances brought by migrant upon their return or sent through relatives. The conceptualization of social remittances is still in the initial stages but the difficulty of quantifying such flows is already obvious. These methodological problems not only lead to an underestimation of the actual flows but they could also mask the true volatility of the total flows of remittances.

Besides the actual quantitative size of these flows, there are other factors that may affect the stability of remittances. Some of the reasons for the recent belief in the stability of these flows are very prescriptive in nature and do not seem to have a sound empirical basis behind. The World Bank study states that remittances "intended for consumption (by recipient households) should be less volatile than those intended for investment" without any supporting evidence (Ratha, 2004). Although migrants may have different motives to remit, it is also asserted in this study that migrants "may increase remittances in times of economic hardships" again without any empirical evidence. The only evidence is provided in the case of "home-bias investment" which asserts that migrants are more likely than foreign investors to keep their investments in the country of origin.

In the Central American region where there are several low-income countries with economies characterized as high-risk and high levels of debt relative to GDP, remittances are sizeable and mostly believed to be used for consumption. Thus, it would be expected that remittances are stable but any portion of remittances allocated to investment in this region will behave more like other foreign capital flows perpetuating the economic insecurity of fragile economies. Recent attempts by multilateral organizations to increase the share of remittances allocated to investment purposes will be expected to bring more instability. This seems to have been the case in the 1990s when remittances and the volatility of remittances rose as relatively more monies were allocated for investment in low-income countries. As many emerging markets issuers are now resorting to future-flow securitization of remittances with the similar euphoria that hyped Argentina's prospects in the 90s, one should ask what migrants are going to gain by securitization. Firms that produced the most optimistic and influential reports for investors on Argentina collected nearly $1 billion in fees but now 38 million Argentineans must deal with the economic insecurity brought about by the collapse of their economy (Blustein, 2005). Would migrants collect some of the fees? Would some of the gains be allocated to development projects? Who decides the appropriate trade-off between lower borrowing costs and longer maturities that securitized debt offers vis-à-vis the inflexibility associated with servicing such debts?

The economic effects of remittances

Another important issue regarding remittances as a strategy of economic and social stabilization is the economic effects of these flows. The economic effects are closely linked to the size of remittances, which we have already discussed above, and also to its uses by remittance-receiving households. It is by now commonly accepted that remittances are used mostly for current consumption (food, clothing, housing, education health, transportation, etc.) while a small fraction is used for productive investment (land, tools, equipment, machinery, start-up businesses, etc.) (Stalker, 1994). Although, this seems to be largely true across several countries, it must be remembered that consumption creates its own dynamic effects through consumption multipliers. The size and the nature of these multiplier effects depend on the linkages among economic sectors in the economy and the pattern of consumption of migrant and non-migrant households. A study undertaken by Zárate Hoyos (2000) to analyze the economic impact of 5 170 million pesos ($2 billion) of remittances sent from the United States by migrants into the Mexican economy in 1989 gave low, medium and high estimates of the actual multiplier (Zárate, 2000). The high or optimistic scenario corresponds to an economy with excess capacity by producers and no ability to substitute goods by consumers. This upper bound estimate shows that real GDP increased by an additional 6,191 million pesos ($2.5 billion): an additional 1.3 percent increase in total domestic output.

Under the same optimistic scenario, the sectoral distribution of these economic impacts was as follows: agricultural and livestock sector output increases by 1 562.8 million pesos ($622 million), the industrial sector's output increases by 4 260.1 million pesos ($1.7 billion), and the service sector's output increases by 5 274.6 million pesos ($2.1 billion). The higher absolute effects were in the service, food processing, and agricultural sectors, respectively. The effects on the latter two sectors are expected, given that these areas are where most remittances are spent: on consumption for family maintenance. Thus, remittances induced an increase in total production 2.14 times the initial transfer; therefore, these consumption multipliers should not be dismissed given the precarious conditions in most sending regions. A study of household consumption behavior in Guatemala also found that international remittances affect the marginal spending behavior of households on various consumption and investment goods (Adams, 2005). This same study found that households receiving remittances actually spend less at the margin on consumption than do non-remittance receiving households; moreover, remittance-receiving households tend to spend more on education and housing. Of course, this increase in education is a form of human capital accumulation and the increase in housing is also a form of investment with income and employment multipliers in the region.[4]

In assessing multipliers effects, the definition of productive investment used is crucial in determining the impact of remittances. Is education productive investment? Is a house improvement (cement floor) a productive investment when one of the leading causes of infant mortality in less developing countries is intestinal diseases from dirt floors? The same could be said about health related expenditures. If one is looking for the kind of productive investment that can generate jobs in the community then other myriad of factors need to be assessed as well as other fundamental questions need to be asked about the role of the migrant in his community? Is the migrant the agent in charge of fostering new employment leading to economic development in the community? What is the role of the non-migrant population? And is there a role for government policies?

Despite these problems and pitfalls, there are other benefits from the flow of remittances in migrant sending communities. In Mexico for example, children from remittance-receiving households complete 0.7 to 1.6 more years of schooling than children in households with no remittances. In El Salvador urban areas, school retention was 10 times higher in remittance receiving households that in households with other income source and that ratio was 2.6 in rural areas. In most Central American countries, remittances have increased the average per capita income by 7-14 percent (OIM) and the employment increases from consumption multipliers. From a cost-benefit point of view, all these benefits must be balanced again the social disruption of families torn apart by migration. A full cost-benefit analysis of migration and remittances is yet to be explored.

The more likely agents to bring economic stabilization to migrant sending regions are the hometown associations. In recent years, the hometown associations (HTA) have stepped up their financial donations earmarked for infrastructure

[4] For similar results in Mexico, see Zárate (2000).

and development projects and thus enhanced the economic and social benefits of remittances. Mexican, Dominican, Guatemalan, Haitian and Salvadoran groups in the U.S. have been among the most active in starting HTA. Although HTA faced their own set of challenges in order to remain viable and stable institutions, they have channeled significant amounts of money to their communities of origin and have made politicians respond by offering matching funds and by demanding more transparent accounting systems. The federal and state government in Mexico started a 2-for-1-remittance matching funds program and then the municipal governments started a 3-for-1 program, which is being replicated in other countries. Interestingly, these flows are not necessarily stable since HTA could stop functioning for several reasons or they could send irregular flows but in practice the instability of these flows has not come from the HTA themselves but from municipal governments who in many cases have been unable to find sufficient funds to match the larger HTA' donations.

Poverty, inequality and remittances

As recognized by the Department of International Development, "poor countries are most at risk of violent conflict so the world community cannot ignore the critical role of poverty and inequality in increasing risks for us all" (DFID, 2005). Their report on security and development also states "inequality and exclusion exacerbate insecurity… Poverty and lack of access to basic services contribute to perceptions of injustice that can motivate people to violence" (DFID, 2005: 8). This leads us to conclude that a reduction in poverty through remittances can have a direct impact in increasing security and stability.

It is well known that remittances have raised income in many poor households. An analysis of 74 countries finds that an average 10 percent increase in the share of remittances in GDP would contribute to a 1.6 percent reduction in poverty (defined as the number of people surviving on a dollar or less a day). But the effects are not always clear-cut. A recent study in Guatemala finds that while it is undeniable that remittances represent important components of household income, internal and international remittances in Guatemala reduce the severity as opposed to the level of poverty (Adams, 2004). This was attributed to the fact that households in the lower income deciles were receiving a larger percentage of remittances.

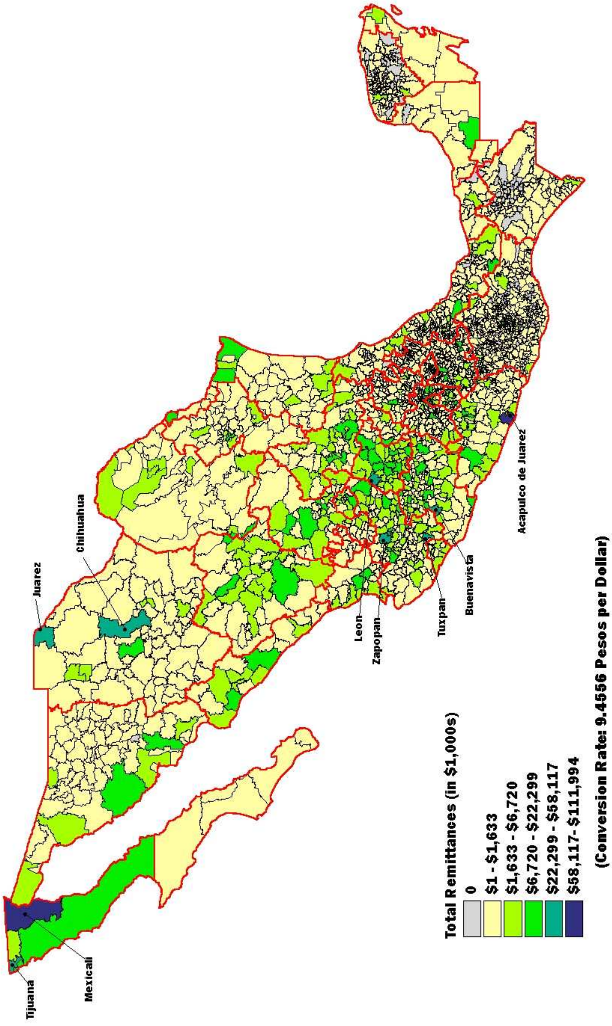
Latin America is usually portrait as the most unequal region in the world in terms of income. As reported by The Economist, a recent World Bank study found that "inequality is deep-rooted, and has varied little over recent decades, despite big changes in economic policies. Data derived from household surveys show that income inequality across Latin America as a whole declined slightly in the 1970s, increased during the 1980s (the debt-ridden "lost decade") and showed no clear pattern in the liberalising 1990s."[5] The World Bank study attributes the continuing inequality in Latin America to the combination of unequal access to education; the disproportionately earnings of educated people; higher birth rates among the poor; and the ineffective targeting of public spending (World Bank (2003). Remittance flows certainly can improve access to education by receiving households but while larger households may receive more remittances, wealthier households may be able to better afford the opportunities of migration.

Studies have been ambiguous about the impact of remittances on income inequalities in Latin America. For example, a study by Adams (2004) of internal and international remittances in Guatemala shows that they have had little impact on income inequality. It seems that most of the poverty-reducing effect of internal and international remittances in Guatemala comes from increases in income per capita rather than from any progressive change in income inequality by these income flows (Adams 2004) reported that income inequality remains relatively stable at around a 0.49 Gini coefficient. Yet, a comprehensive study of the remittance literature by Rapoport and Doquier (2004) indicate that in general transfers in developing countries seem to increase inequalities while in developed countries they have the opposite effect. A quick look at the spatial distribution of remittances among Mexican municipalities shows clearly that these flows go to very specific states and very specific municipalities within these states accentuating regional and local income inequalities (see map 1). A good case in point is Zacatecas which is the state with the longest migratory tradition in Mexico (see map 2).

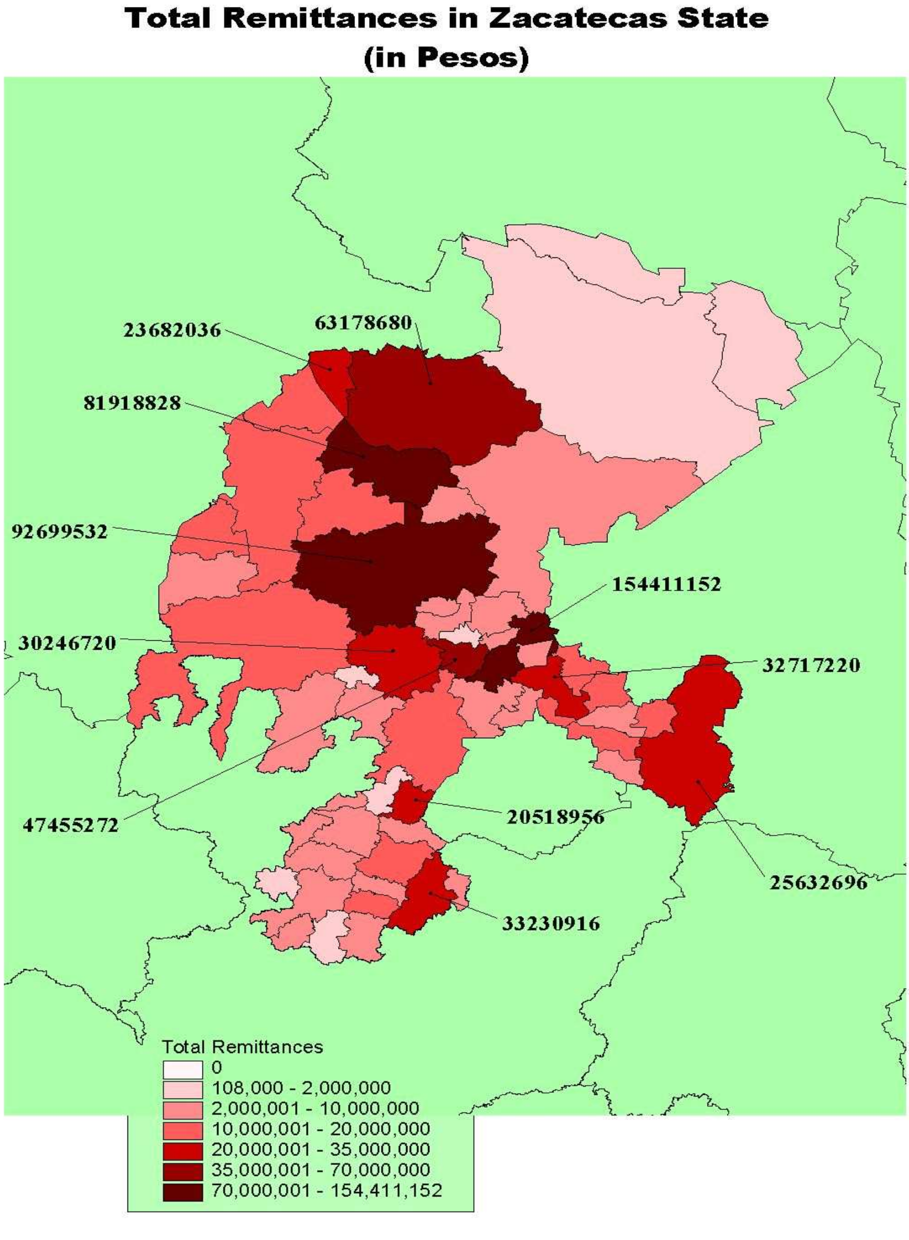
[5] "Inequality in Latin America, A stubborn case", in *The Economist*, november 6, 2003.

MAP 1

Total Annual Remittances by Municipality in 2000 (in $1,000s)



MAP 2


Total Remittances in Zacatecas State
(in Pesos)
23682036
63178680
81918828
92699532
154411152
30246720
32717220
47455272
20518956
25632696
33230916
Total Remittances
0
108,000 - 2,000,000
2,000,001 - 10,000,000
10,000,001 - 20,000,000
20,000,001 - 35,000,000
35,000,001 - 70,000,000
70,000,001 - 154,411,152

Other remittance strategies for economic stabilization

The literature on the microeconomics of remittances dealing with the motivations to remit can shed some light on the relationship between remittances and income insecurity through their effects on poverty and income inequality. The analysis of the economic effects of remittances in the context of developing countries presents some unique characteristics, which warrant separate considerations (Rapoport and Docquier, 2004). Unlike developed countries, developing countries face high levels of extreme poverty and high levels of income and social inequality and income volatility. In addition, there is pervasive presence of capital markets imperfections which offer little to no financial services in many rural areas thus the credit and insurance needs of many rural households go unmet. Therefore, the specific analysis of the motivations to remit in developing countries presents some unique features. While the literature on private transfers in developed economies seem to clearly point out to altruism as the main determinant of private transfers; in developing countries, there seems to be several motives for the transfer of remittances (insurance, investment and service arrangements) ((Rapoport and Docquier, 2004).

These factors add several layers of complexity especially in empirical work where it seems to be extremely difficult to have access to data to differentiate the different motivations. In developed countries, transfers are for the most part anonymously while in developing countries remittances are part of family arrangements and in some cases even community arrangements. A case in point is the contributions of hometown associations, which are not only specifically destined to the communities of origin of the migrants forming the association, but also the monies are earmarked for specific uses. The interactions of migrant through their associations and their local governments at home can be riddle with obstacles to the smooth flow of resources and could be prone to political manipulations.

The starting point in the microeconomics of remittances is to justify a separate treatment of remittance behavior apart from the migration decision. The seminal study to elucidate the distinction between the migration and the remittance decision was done in El Salvador and Nicaragua by Funkhouser (1995) who observed that while economic conditions in the 1980s seem to be similar in both countries; twice as many Salvadoran households were receiving remittances than in Managua. The implication of the separation of the migration and the remittance decision warrants a separate look at the characteristics (Rapoport and Docquier, 2004). This is an important issue since it is known that there are households with migrants who receive remittances and others who don't but it is not widely known there are households who do not have a migrant yet they receive remittances. These households tend to be made up of older parents left behind who rely on their meager pensions plus remittances for their economic survival. The economic stability of these households depends on the stability of these flows. Corona and Santibanez (2004) study shows that out of those households who received remittances in Mexico, 358 104 households did not have a migrant during the last five years prior to 1997 while 169 677 households had a returned migrant and 342 280 households had a permanent migrant. We could not infer much about these households from the migration decision about these households with remittance but no migrants from their migration decision alone. This study also reveals that approximately two-thirds of households with a migrant do not receive remittances, which may be an indication of the further vulnerability of some households who incurred in migration costs but who are not obtaining a return in the form of remittances. Little is known about the stability of the remittance flows compare to the usual pension arrangements in the case of households with no migrants and remittances.

According to Rapoport and Docquier's (2004) review the obvious starting point to assess motivations to remit is that the migrant cares about those left behind. Their review examines individual motives (altruism, exchange, inheritance[6]) and familial arrangements (insurance and investment). The new economics of labor migration literature clearly recognizes that migration is a form of informal familial arrangement that provides several advantages to participating families such as risk-diversification, consumption smoothing, easing of liquidity constraints and even financing of investment activities. Families have an advantage in obtaining information about the migrant and can enforce the informal arrangement through inheritance and social sanctions. Yet, these arrangements are also vulnerable to strategic behavior.

The insurance motive is part of the new conceptualization of remittances and migration not only as individual decisions but rather as familial ones (Amuedo and Pozo, 2002). In this view, given the pervasive presence of imperfect capital markets in many sending regions, migration and remittance contracts between the migrant and his family allow the family to diversify their income and smooth

[6] They also treat the strategic motive under the individual motives. For a review see Rapopport and Docquier (2004).

their consumption. These informal migration and remittance contracts allow the family to better deal with income volatility in agricultural areas. The degree of enforcement of these informal contracts is given by the relative bargaining power of both sides but there are some informal enforcement mechanisms like future familial solidarity, inheritance or retirement in the community of origin. Under this view, short-run income shocks on the recipient's side are key determinants of remittances. One of the main implications of this particular determinant of remittances is that there is an inverted U-shaped relationship between the number of migrants/heirs and remittances.

Remittances have also been treated as a form of family investment in the migrant so remittances are conceptualized as a form of loan repayment. As such remittances must be positively related to the amount invested by the family so more education and more geographical distance should be associated with higher remittances. Under the investment motive, consideration must also be given to the liquidity constraints of households who may not be able to achieve an optimal amount of migrants. A study in Guatemala points out that the average price for a trip to the United States is around US$4-5 thousand dollars with the lower bound at US$2 000 and the upper bound at YS$6 000. This may be a risky investment given the low income per capita in Guatemala plus the risks involve in migration such as deportation, theft, and even death.

Although it is true that migrating is a strategy that an increasing number of Latin American families use to confront income insecurity and volatile labor markets, people also migrate because of the perception of "relative deprivation" that arises from unequal income distribution (Stark, 1991; Elton, 2006). An evaluation of the neo-liberal policies of the 1980s and 1990s point out to an increased emphasis on combating inflation at the expense of high interest rates which made domestic credit very expensive while at the same time the 1980s decade is known as the "lost decade" because of the lack of sufficient economic growth and increased income inequality. These trends are identified by many theorists as causes of migration (Massey *et.al*., 1999); therefore, remittances are at least somewhat identified with the failure of neo-liberal policies and the likelihood of remittances as a remedy for the lack of economic growth is questionable.

An examination of the motives to remit seems to indicate that remittances serve many purposes but they do not seem to be profit driven but rather compensatory flows. The distinction is important because if remittances are compensatory transfers then they should fluctuate countercyclical and the implication is that they are not like other capital flows. A recent econometric study tests the hypothesis that remittances would have a positive correlation with output growth if they are like other capital flows and finds a robust negative correlation between remittances and GDP growth which leads the authors to conclude that remittances may not be intended to serve as a source of capital for economic development.

Conclusions and policy suggestions

At the macroeconomic level, remittance flows have provided countries with some unexpected benefits. These flows are another much needed source of foreign exchange which in some developing countries is in short supply. But the main concern in this paper was to examine the potential of international migration through remittance strategies to provide economic stabilization in households in Mexico and Central America. Although recent literature claims that these flows are more stable than other sources of foreign exchange, there is some skepticism about the true size of these flows. This is even more crucial when looking at collective and social remittances due to a lack of proper accounting methods. Calls for the securitization of remittances are premature given the uncertain size of these flows. It is also unclear if these financial instruments will directly benefit remittance receiving households.

A quick look at the microeconomics of remittances indicates some positive effects at the household level. Current consumption, which includes food, housing and education expenditures, increases and depending on the definition of productive investment, it could be said to improve welfare in remittance-receiving households. Consumption patterns also give rise to consumption multipliers which could have significant effects in local economies and even indirectly increase employment in more dynamic regional economies. Although collective remittances relative to family remittances are much smaller, they are specifically targeted to infrastructure development and thus they have a higher per-dollar impact on migrant households. The evidence on poverty and inequality is more mixed and less optimistic. There seems to be an obvious increase in household incomes but given the precarious nature of many of the receiving households, these flows only alleviate poverty but do not always raise household incomes above the poverty line. Given the size and spatial concentration of remittance-receiving households, it is expected that income inequality will continue to remain a pervasive trend in Latin America among migrant and non-migrant households.

Obviously there is no reason to think that there is one dominant motive to remit and indeed this is borne out by empirical studies. The literature on the motivations to remit informs us that there is great heterogeneity of motives not only across individuals but also the same individual may have different motives at the same time (Rapopport and Docquier, 2004). As Rapopport and Docquier (2004) find patterns of remittances are better explained as familial inter-temporal contracts than as a result of altruism or other purely individualistic considerations.

Unfortunately, the study of these familial inter-temporal contracts and the different motives to remit does not give a definite direction of the explanatory variables on the amount of remittance flows. In one case the same explanatory variable such as migrant education have a positive relationship with the amount transferred under the investment motive but a negative relationship under the exchange motive. In another case, the recipient's long run income is negative related to the amount transferred under the altruistic hypothesis while it is positive or negative under the exchange and investment motives. Although the approach highlights a few important variables, one must considered the specific context in which migration and remittances take place.

We concur with the findings of the Taskforce on Remittance report "All in the Family" (Inter-American Dialogue (2004) that these are private flows and governments have no claim on them despite of the alleged benefits they may have. In particular, remittances should neither let migrant sending governments off their local and regional responsibilities nor international donors to dwindle their aid to the safety net needed as a result of neo-liberal policies. At best it seems that remittances alleviate some of the intensity of poverty for the most vulnerable groups yet the high price many pay is not only monetary (high border crossing costs) but also affective (family separation). Familial arrangements such as the informal contracts between family members are riddle with enforcement problems and the stability of these flows is questionable given the precarious condition of migrants in the receiving countries. In many instances, migration can be best adopted as a strategy against the risk of poverty and the risk of retirement by those who can better afforded (those with more assets) widening income inequalities. The persistent of poverty and income inequality continued to be important threats to income security and it is likely to foster continued migration.

Attempts made to hear the voices of migrants reveal that they are opposed to any government control of remittances and only welcome attempts to reduce costs and increase transparency.[7] Although, many seem amenable to the creation of an economic development fund, most are skeptical of the government's ability to manage the fund while others simply express that these are meager funds only enough to cover basic consumption. Finally we argue that there is insufficient evidence to prove that remittances are an effective development tool against poverty in developing countries.

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