REMITTANCES AND DEVELOPMENT IN LATIN AMERICA: A RELATIONSHIP IN SEARCH OF A THEORY

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ABSTRACT: Several governments and International organizations have lately paid attention to remittances as a tool that could contribute to the reduction of poverty and the development of the countries of origin of International migration. In this article, from a critical point of view, we submit some concepts and facts that allow a better understanding of the real role of remittances in promoting such a development process. First of all, from a macroeconomic analysis, we elaborate a model of the relationship between remittances and development that allows to understand and to evaluate the impacts of household remittances depending on their character and modality, as also their significance and specific behaviour as an economic category. The base of this analytical model is quite simple: the impact of remittances directly depends of the way they are incorporated to the economic structure of each society. Secondly, starting from an econometric model, we identify the determinants of the macroeconomic behaviour of remittances. The results of this model show that the dynamics of remittances are not related to an investment or saving fund, but to a wage fund, that in this case adopts the form of an external household transference, and that contributes to solve the negative effects over household of the reiterative crisis and recessions of the Mexican economy.
KEYWORDS: Development, Migration, Remittances, Economy, Model, Investment.

RESUMEN: En los últimos años, diversos gobiernos nacionales así como organismos multilaterales de ayuda al desarrollo dedican una especial atención a las remesas como instrumento que podría contribuir a la reducción de la pobreza y al desarrollo de los países de origen de la migración internacional. En este artículo, desde una perspectiva crítica, queremos aportar algunos elementos conceptuales y empíricos que permitan un mejor entendimiento de los alcances y limitaciones de las remesas como promotoras de procesos de desarrollo en las sociedades de origen de la migración. Por un lado, desde la macroeconomía, proponemos un modelo de análisis de la relación remesas-desarrollo que permite entender y evaluar los distintos impactos de las remesas familiares en función del carácter y modalidad que ellas asuman, así como de su significado y comportamiento específico como categoría económica. El supuesto que está detrás de este modelo analítico, es muy simple. El impacto de las remesas depende directamente de cómo ellas se incorporan a la estructura económica de cada sociedad, esto es, de cuál es el carácter y lógica que define su comportamiento macroeconómico. Por otro lado, con base en un modelo econométrico, estimamos los determinantes del comportamiento macroeconómico de las remesas. Los resultados del modelo indican que la dinámica y comportamiento macroeconómico de las remesas no se corresponde con el de un fondo de ahorro o inversión, sino más bien al de un ingreso salarial, que bajo la forma de transferencia familiar externa, contribuye a compensar los efectos negativos que las crisis recurrentes y los ciclos recesivos de la economía mexicana provocan sobre las economías familiares.
PALABRAS CLAVE: Desarrollo, Migración, Remesas, Economía, Modelo, Inversión.

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INTRODUCTION

Remittances in Latin America currently exceed 60 thousand million dollars per annum. This flow represents one of the main sources of current transfers in the Balance of Payments, surpassing in all cases the income derived from exports and foreign direct investment, themselves far greater than the resources derived from international cooperation for development. The volume reached by remittances makes them not only visible to the eyes of society but also an important topic of social, political and academic debate, in terms of their apparent potential as a source of finance for local and regional development.

In this context, various international organisms (IMF, IDB-MIF, UNCTAD, World Bank, among others) together with national and local governments focus their attention on remittances as a preferential instrument that could contribute to the reduction of poverty and promote development in the countries of origin of international migration (Terry, 2006; Ratha, 2003; World Bank, 2004; Acosta, *et al*, 2006; Alleyne, Kirton and Figueroa, 2008). In contrast with this predominant discourse, various civil society organisms and many academics question these new approaches, adducing that remittances are essentially private transfers between private individuals and thus cannot substitute State responsibility and market action in promoting economic development and the well-being of the population (García-Zamora, 2005; Cortina, *et al*, 2004; Canales, 2007b; Martínez, 2003; Lozano, 2005; de Haas, 2007; ECLAC[CEPAL]; 2006).

Beyond agreeing with one position or another regarding the role of remittances as a possible driving force for development, it is interesting to note that a certain *empiricist* tendency predominates in this debate, in which it is more important to demonstrate (or refute, as the case may be) the empirical validity of a hypothesis rather than to thoroughly analyze the theoretical and conceptual bases which could explain this same hypothesis in terms of the Remittances-Development relationship.

Indeed, the debate has focused particularly on *how* remittances could promote an economic development process in the migration regions of origin, leaving great voids as to *why* remittances could have such an impact (or not, as the case may be). In this framework, one of the most startling voids is precisely the lack of a theoretical framework from which a conceptual definition of remittances and their relationship with the processes of development can be elaborated. In this absence of theories, the accounting definition of remittances is directly adopted, one which is used to measure this type of transfer through the Balance of Payments. In the best case, the tendencies of this accounting definition are pointed out, but only in terms of those transfers that are not properly recorded as family remittances (Carling, 2007; Reinke and Patterson, 2005).

Taking into consideration this theoretical vacuum in the Remittances-Development relationship, we are interested in providing some conceptual elements in this article that allow for a greater understanding of the scope and limits of remittances in promoting the processes of development in the societies of origin. For this, we present an approach in two phases.

From macroeconomics we propose a model of analysis of the remittances-development relationship which allows for the understanding and evaluation of the various impacts of family remittances in terms of the character and modality that they assume, as well as their significance and specific behavior as an economic category. The supposition behind this analytical model is very simple. The impact of remittances depends directly on how they are incorporated into the economic structure of each society, that is, on the character and logic that defines their macroeconomic behavior.

We also present an econometric model through which we estimate the macroeconomic determinants of remittances. In particular, these determinants allow us to demonstrate empirically the macroeconomic character and meaning of remittances and thus, point out the scope and limits of their possible impacts.

REMITTANCES AND DEVELOPMENT. A PARADIGM IN SEARCH OF A THEORY

It is interesting to note that although there appears to be no consensus regarding the meaning and magnitude of the social effects and economic impacts of remittances, all over the world, a celebratory position regarding their possible effects on the receiving third world economies tends to predominate.

We can identify two types of discourse and analysis in the literature that upholds this pro-government tendency.

I. We find the discourse and texts of international organisms that tend to focus their arguments on proposals that, from their perspective, would allow for greater use of the potentialities of remittances. They are, on the whole, texts without theoretical or empirical support, and which aim to impose a point of view regarding the debate surrounding remittances.
II. Also, there is an increase in the production of academic articles seeking to provide empirical support based on econometric models for these political action models, derived from the predominant discourse of international organisms and several national governments.

i) In the first case, several authors and international development aid organisms (IDB IMF, OECD, World Bank and UNCTAD, among others) argue that, given the magnitude and tendency of remittances, they tend to represent one of the main sources of current transfers in the balance of payments in many developing or recently industrialized countries, making them a major injector of economic resources into specific sectors of regional and local economies (Terry, 2006; Orozco and Wilson, 2005; Hugo, 2005; Chami, *et al*, 2003; MIF, 2004).

In particular, this discourse extols the role of remittances from at least two areas or dimensions, namely:

- For their role in promoting economic development, both directly through the financing of productive projects and social infrastructure, and indirectly through the multiplier effects on the spending that they finance;
- For their role in reducing the levels of poverty and social inequality that have always characterized developing societies.

What is interesting is that it seems that the international organisms are promoting a new paradigm of development to be instrumented in our societies, in which migration and remittances assume a preponderant role, substituting the role that in previous schemes and paradigms would have been played by the State and the market. In this new paradigm, remittances form a kind of economic capital which, together with other social capitals (family networks, family and community work, migrant organizations, among others) constitute privileged resources for communities that could, if well managed, contribute to overcoming the conditions of social vulnerability and economic precariousness, even when the conditions of the structural environment in which they live are not favorable.[1]

Indeed, this focus on the impact of remittances and the role of migrants in development is coherent with the principles that sustain the new policies of development and combating poverty promoted over the last ten years. In contrast with the focus on providing aid in previous policies for combating poverty, this new approach shifts the attention towards promoting the correct *management* of the poor's assets and resources so that they themselves can face up to and overcome their situation of poverty and vulnerability (Moser, 1998; World Bank, 2004). According to this approach, the poor can be the protagonists of the process of development because they have the necessary resources, among them, remittances. In any case, they only need to learn to use them and *manage* them correctly. Measures such as the poor's *empowerment*, self-employment and utilization of social capital would constitute privileged mechanisms for solving their situation of vulnerability.

[1] The political and ideological presuppositions that sustain these positions are evident. In fact, simply considering the possibility that remittances could be the basis of a new *paradigm* of development not only demonstrates a lack of good academic sense, but is mere rhetoric and political demagoguery. A new paradigm must sustain itself on new theories of development, as well as confront empirical data which corroborate them, aspects which are undoubtedly absent from all these celebratory discourses of remittances and migration that dominate the official discourse of international organisms promoting development, and of several national governments of countries with high international emigration rates.

Thus, the need for orienting remittances towards the creation of small and medium businesses is highlighted among the strategic lines for development, proposed by both national governments and international organisms, as well as other kinds of spending that encourage the formation of productive and human capital (Ratha, 2003). In the case of Mexico and Central America, for example, this thesis already forms part of official government programs, in which self-employment and family businesses financed by remittances are presented as alternatives to unemployment and poverty. This is the case of the 3 × 1 programs, for example, through which productive investment and the establishment of businesses on the part of migrants and/or their relatives is sought.[2]

ii) Together with these more political texts, a series of econometric studies have proliferated in recent years, ones that seek to provide empirical support for these celebratory visions of the role of remittances in the process of development.

On one hand there are those studies that with the use of models of social accounting, seek to estimate the impact of remittances through the multiplier effects that they generate (Adelman and Taylor, 1990; Taylor and Wyatt, 1996; Zárate-Hoyos, 2007; Hinojosa, 2003). This type of study produces results such as estimating of the multiplier effect of remittances on the GDP, through which the effective impact of remittances on the economy's dynamic can be estimated and calculated.

These works are based on Keynesian macroeconomic approaches which describe and explain the multiplier effects that this type of transfer could have on the income and the domestic economic activity of receiving countries. Specifically, according to Keynesian models, even when remittances (or any other type of external transfer) are spent only on family consumption, they have a multiplying effect on the domestic product and economic activity. Furthermore, Keynesian theory states that the magnitude of these multiplier effects depends directly on the propensity of saving and indirectly on the propensity to import (purchasing external goods). Albert Hirschman later extended these models in terms of the possibilities of growth and economic development that they could generate under given circumstances.

In the light of growing interest in considering migrants' remittances as an instrument for development in sending countries, especially in the Third World, a series of studies has proliferated in recent years based on econometric models that seeks to measure the impact of remittances in various spheres of the na-

[2] The 3 × 1 programs are based on the principles of co-development and rely on the concurrence of funds from different government sources and migrants. Thus, in the Mexican case, for example, the 3 × 1 program consists of the federal, state and municipal governments each contributing one dollar for every dollar contributed by migrants. Both private productive projects and social infrastructure are financed with these concurrent funds. For the achievements and limitations of these programs, see Delgado Wise, *et al*, 2004; Torres, 2001.

tional economy, namely the distribution of income, poverty reduction, promoting economic growth, and the formation of human capital, among others.

Thus, Adams, Richard and Page (2005) for example, estimate that an increase of 10% in the rate of emigration (with the consequent increase in remittances) generates a reduction of 2.1% in the level of poverty in each country, measured as the proportion of the population living on less than a dollar per day. The IMF (2005) finds that a 2.5% increase in the Remittances/GDP relationship is statistically associated with a fall of 0.5% in poverty. Acosta *et al* (2006) extend these models in order to estimate the magnitude of the impact of remittances according to the level of development and poverty of each country. These authors specifically find that a 10% increase in the participation of remittances in each country's GDP would imply the reduction in the levels of poverty of 0.04% (poor countries) and 0.5% (rich countries).

In general, rather than trying to demonstrate which theory explains the Remittance-Development relationship, these works try to provide an econometric basis to uphold a pre-established political discourse, through a series of empirical measurements of the impact of remittances on this or that macroeconomic variable. In fact, to paraphrase Sami Naïr (2006), we can affirm that the knowledge generated by this type of study is often more useful for understanding the political interests underlying this kind of discourse than for understanding and gauging the economic impact of remittances.

Indeed, the main result reached by these studies is not in terms of describing the causes and mechanisms of why remittances have this or that economic impact, an undoubtedly academic and scientific objective, but rather, obtaining estimates and measurements such as by how much poverty or inequality can be reduced, by how much the GDP would increase, given a certain increase in the volume of remittances, an objective which is undoubtedly closer to an economic policy strategy with the set of interests and priorities it implies.

However, we would like to comment on certain methodological and conceptual limitations that are present both in the case of those studies that seek to measure the multiplier effects and those that seek to measure other macroeconomic impacts of remittances.

On a methodological level, both kinds of study tend to concentrate on the estimation of parameters for measuring the economic effects of remittances without offering information or estimates on the value of the same parameter with other macroeconomic variables. Without these alternative estimates it is not always possible to know if the multiplier effect of remittances is really important or if, on the contrary, it is well below the effect that would be obtained from other macroeconomic categories.

In other words, these models do not tell us if the value of the coefficient of remittances is greater or lesser than that of other variables. Thus, for example, in other cases we can determine if a 1% increase in remittances can contribute to a

0.5% reduction in poverty, but we do not know if this effect is greater or lesser than that which would be achieved with a 1% increase in the GDP or 1% in public transfers through social poverty reduction programs, etc.

The weakness of these studies seems even greater on a conceptual level. Indeed, like the discourse of international organisms, these econometric studies present a significant conceptual void in terms of providing theoretical support for the relationships analyzed, be it empirically in some cases, or of the relationships promoted politically in others.

Indeed, in almost all of these studies, the question that provides the argument with sense is not *why* remittances have an economic impact (of whatever type) but rather they limit themselves to analyzing *how* it would be and to *how* this hypothetical impact could be strengthened.

In the case of the discourse and texts disseminated by international organisms, for example, the *how* argument is in favor of a political perspective of development. Official discourse tends not to argue the *whys*, the logical and theoretical arguments that support a polity of development based on remittances, but rather they argue in favor of a possibility, an economic opportunity that remittances could represent. In general these texts tend to analyze the impact of remittances *if* they were destined towards a more productive use, whether financing private investment, training human capital, or used for social infrastructure, among others. However, they offer no logical-conceptual argument to explain and support *why* remittances could or should have such purposes.

The theoretical-methodological trap in this kind of argument is obvious. Any resource destined towards productive investment would have effects on economic development. That much is obvious and it is not under discussion. The underlying question is *why* should it be remittances that are used for those purposes and not other resources. The answer to this question can come from two sources: political arguments justifying this option (the responsibility of the subjects of their development, etc.), or theoretical arguments that explain and support this vocation of remittances are given. Official discourse tends to be centered on the former, leaving many vacuums and silences with regards to the latter.

Empirical studies based on econometric models are not supported by theoretical models either, but seek to gauge empirically the supposed impact of remittances argued and pointed out by official discourse. These works are not only functionalist, as described by Jones (1998) and Binford (2002) but many are purely and simply downright empiricist. Curiously enough, these works do no seek to prove a theory of remittances but rather measure and demonstrate a supposed impact of remittances, one which has been neither conceptualized nor theorized.[3]

[3] The starting point is a recognized conceptual framework only in the case of studies on multiplier effects.

Considering these theoretical and methodological deficiencies, our proposal seeks to focus on the Remittances-Development relationship starting precisely from its possible conceptualization based on theoretical frameworks that could support it. In this sense, the basic question that guides our reflection is not to determine or gauge *what is* the impact of remittances, but one that is much more basic: *why should remittances have any impact on the dynamics of the development of Third World economies¿*

At the risk of falling into an excessive positivism, our interest is to discuss the theoretical framework that allows for supporting this type of relationship, and from which we can establish concrete hypotheses that can be demonstrated or refuted empirically. A first point to solve in this respect is defining remittances conceptually. The various works tend to take the operative definition of remittances as a starting point, of how they are measured in the Balance of Payments of each country, or from the recommendations that international organisms make in this respect (Carling, 2007). Our starting point is different. Before establishing an operative definition, we need to establish the conceptual framework from which to understand and analyze both remittances and international migration in the contemporary world.

A MACROECONOMIC MODEL FOR ANALYZING THE IMPACT OF REMITTANCES

Remittances are a transfer of resources between private individuals; the point of discussion is defining their economic character and significance (as well as their social and cultural significance). As a flow of transfers, remittances have an impact on both the macro- and microeconomic dynamics of the receiving countries. Nonetheless, this impact depends directly on the economic significance that they assume at a given moment.

In this respect, we can retrieve some analytical models from macroeconomics that will allow us to understand and gauge the weight and impact of remittances, depending on the specific character they assume. Analytically, based on these models we can establish a distinction between two broad categories of remittances: the so-called *wage remittances (family)* and the so-called *capital remittances (productive)*.

- The first correspond to direct transfers for family use, whether for consumption (wage remittances), savings for future family consumption or family emergencies, or to cover the expenses of the reproduction of family customs and traditions implied by the reproduction of cultural relationships.
- Productive remittances, on the other hand, correspond to various forms of private or social investment, which do not go through the family budget.

This basic distinction is not fortuitous; it is derived from a macroeconomic conceptual framework which allows us to conceptualize and gauge the possible impacts of both these categories of remittance. Indeed, from macroeconomic theory we can identify the sphere of incidence and the possible impacts of each type of remittance on the basis of its particular function as an economic category.

In the case of *wage remittances*, for example, they contribute to sustaining the *income-spending balance* of homes. The impact can be perceived in two different and complementary ways.

- By contributing to family consumption, they contribute to elevating the standard of living and welfare of receiving homes, and at the same time have an effect on the dynamics of economic inequality and the conditions of poverty.
- This same contribution to home spending creates multiplier effects in the rest of the local, regional and national economy. Nonetheless, the same model shows us clearly and precisely that we should not mistake these multiplier effects and wellbeing with the impact that remittances could have directly as an instrument of development.

As for *capital remittances*, macroeconomics shows that they contribute to the *savings-investment balance*. As a source of investment, we can consider productive remittances as an instrument of economic growth which, together with other investment funds (foreign direct investment, private domestic investment, public investment, etc.), forms the basis of any development process.

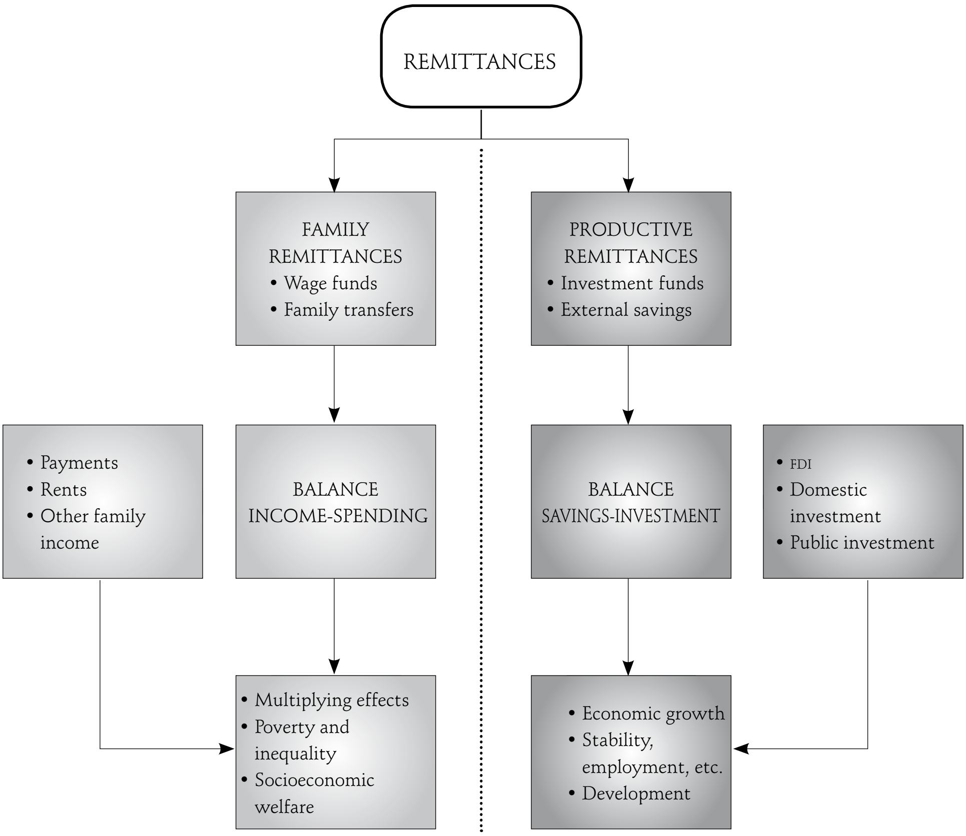
We are not dealing just with different categories in terms of their origin, but especially in relation to their function and economic significance for the countries that receive them. Indeed, we cannot confuse this impact of capital remittances on economic growth with a hypothetical impact on the welfare of the population and/or reduction of poverty, which is associated more with wage remittances.

Considering these distinctions regarding the economic significance of remittances, we now present an analytical model which contextualizes and at the same time allows us to illustrate the macroeconomic relations associated with each category of remittances (wage or capital), and from which we can conceptualize and estimate the possible economic impact of each of them.

What is relevant in this analytical-conceptual model is that it is based on macroeconomic theory and offers a framework for understanding the impact of remittances, according to the different modalities of concrete categories of remittances.

- It allows us to understand how and why wage remittances can contribute (or not) to reducing poverty in receiving homes, or influence the distribution of income and welfare levels of the population.

A model for analyzing the economic impact of remittances



- It allows us to understand how and why capital remittances can contribute (or not) to sustaining a process of economic growth and macroeconomic stability.
- This model furthermore shows us that we cannot mistake one effect for another, or in other words, the concrete impact of each remittance is on the basis of its role as an economic category, that is, of its particular conceptual definition, which is derived directly from the concrete remittance modality in each particular time and place.
- Additionally, and as the logical conclusion of the above, this analytical model is not necessarily at odds with some of the more generalized proposals regarding the remittance-development relationship; it contributes to generating a framework for their understanding. Thus, for example, this model recognizes the spheres of action of the multiplier effects, as well as their scope and limitations.
- Lastly, while this distinction allows us to establish a framework for understanding remittances that includes various modalities with different effects, it does not necessarily imply that each of these effects is by definition economically important and of great magnitude. The model only shows us the spheres of action or incidence of each modality of remittance. Nonetheless, we can use this model as a basis for designing methodological strategies that allow us to measure and

gauge the specific impact of each modality of remittances with respect to each macro and microeconomic sphere in question.

The above is essentially an analytical –not theoretical– model. That is, it allows us to identify the mechanisms and relationships of *how* the different categories of remittances, private external transfers, impact on the dynamics of the economy. But they still do not show the *why* of this relationship and impact. Moreover, this model does not show *why* remittances establish one type of modality or other of transfer or resources (wage transfer vs. capital transfer). It only shows the ways in which one category or another of remittances can impact on the economic dynamics.

In order to understand and explain these impacts, a remittance theory is needed, that is, a conceptual framework to explain, define and grasp them, and which we can use to describe and define them as one and/or another type of transfer of resources. In other words, we need a conceptual framework that explains why remittances are a type of wage transfer, or on the contrary, why they would be a type of capital transfer, or why they are both. In short, we need a conceptual framework that allows us to answer the simplest of questions: *What are remittances¿*

We know that remittances are international transfers that flow from migrants to their families and communities of origin. We know and understand the difficulties of their operative definition, and the methodological difficulty of measuring and recording this type of private transfer. However, we also know that the problem does not lie there, but rather in the conceptualization of remittances as an economic and social category. In that respect, we can ask several questions, namely:

- Are remittances a private savings-investment fund or do they constitute a wage fund for financing private consumption¿
- In either case (as an investment fund or wage fund), what are the impacts according to macroeconomic theory for this type of external transfer¿
- What types or modalities of remittances exist in function of their impact on the economic dynamics¿
- What is the real weight of each of them¿

In order to answer these and other questions on the economic function and impact of remittances, we think it is necessary to start from a further reaching theory that allows us to understand and explain the dynamics and significance of international migration in contemporary society. This theory should serve as a contextual and referential framework for conceptualizing and defining not only the economic function of remittances, but also for establishing the spheres and dimensions of their possible impacts in other macroeconomic variables (growth, poverty and welfare, income distribution, among others).

It is common in the discourse of national governments and international organisms for the sphere of analysis of remittances to circumscribe to hypothetical impacts in the societies and economies that receive them, without taking into consideration the global context that generates and explains the migration dynamics in today's world. In particular, remittances are seen as a resource that is given and whose origin is not questioned (wage, precarious and flexible labor, and economic globalization, among others). This is not fortuitous, but rather reflects the conceptual weakness and ideological prejudices that support this discourse.

Indeed, the silence surrounding the conditions of origin of remittances, especially in terms of the conditions of social exclusion and labor segregation that characterize migrant labor insertion is not accidental but is the result of a peculiar vision of migration and remittances. If the analysis centers on the role of remittances in receiving societies, it is because it is assumed, implicitly at times and explicitly in others, that the problem is to be found in the countries of origin of migration, especially in the structural conditions that characterize their underdevelopment and which lead to the emigration of the labor force.

Thus migration and remittances are seen as a consequence of underdevelopment, not as a manifestation of the global economy that integrates and subordinates these emigrating regions into the global and postindustrial economy. Moreover, migration and remittances are also seen as an opportunity for these underdeveloped economies, as a resource that, if well-managed, would allow them to overcome the structural conditions or precariousness, poverty and inequality that led to labor emigration. Thus, under conditions of a lack of economic growth and sources of investment, remittances become an unusual alternative, whether through the multiplier effects, or directly as a source of financing for productive investment. In conditions of poverty and social precariousness, remittances are held up as an income opportunity that allows for improvement in the levels of wellbeing of the population and thus overcome conditions of poverty.[4]

Our view, on the other hand, parts from a more comprehensive perspective, in which not only the conditions of the countries that export labor matter, but also or perhaps especially, the conditions of the receiving countries of migration

[4] It is paradoxical but telling that this kind of discourse does not question the causes of inequality, poverty, or underdevelopment and low economic growth, but that these are purely and simply taken as given structural factors. On the contrary, the emphasis is placed on the opportunity that this huge flow of remittances represents for facing up to and solving at least a part of these structural problems. A suspicious silence is thus established both regarding the structural causes of underdevelopment, poverty and inequality, and regarding the responsibilities of governments and international organisms in their application of structural adjustment policies that contribute not only to structuring these conditions of low growth, poverty and social inequality, but furthermore, are the structural basis that explains, to a large extent, the rise of emigration from these same countries.

matter. This is a view that aims to integrate the current migration processes into the dynamic of structural transformations that the globalization of the world's economy generates. In this perspective, migration is no longer solely a problem of and for the Third World but is an inherent phenomenon of globalization and as such, must therefore incorporate the phenomena and transformations of the economies of the developed and highly industrialized countries, transformations that directly influence the configuration of migration processes and remittance flows in the contemporary world.

In this sense, the social and economic significance of remittances in today's world cannot be understood without taking into consideration the character and significance that international migration now assumes. Moreover, according to various authors, international migration in today's world cannot be understood without taking into consideration the structural changes the globalization of the world's economy has generated in the system of international economic relations (Castles and Miller, 1993; Naïr, 2006; Sassen, 1998).

Indeed, various social inclusion and exclusion mechanisms are activated with the process of globalization which, through labor precariousness and other modern forms of social segregation, has led to a new pattern of social polarization and differentiation based on two different and complementary processes.

- The establishment of a labor regime based on the processes of flexibility and deregulation, leading to what Beck (2000) calls a labor *risk regime,* which substitutes the previous labor regime and social institutions characteristic of the Welfare State; and
- The transformation of the occupation system, based on the growing segmentation and polarization and the social differentiation implied (Castells, 1998, Pioré, 1979).

This degradation of labor conditions ends up expelling local labor from those jobs that have been flexibilized and deregulated, to be replaced with a migrant labor force whose vulnerable condition makes it possible to hire in worse labor conditions, often with no possibility of being unionized, with no contracts, low wages and great instability (Zlolniski, 2006; Sassen, 1998). We mean precarious and devalued jobs such as building cleaning and maintenance, gardeners, dishwashers, restaurant employees, domestic service and caregivers, and other similar occupations carried out by a growing migrant labor force.

Based on these factors of social differentiation and unequal insertion in the labor market, population groups arise with differing levels of social vulnerability, a situation that is made worse by a structural context in which the mechanisms of political and social negotiation that arose in industrial society and shaped the Welfare State have stopped operating for the most vulnerable groups (Beck, 2000). This is the mechanism in which, in global society, social and cultural minorities, such as immigrants, are created and recreated, whose socially constructed vulnerability is transferred to the labor market in the guise of a devaluation of their labor, living conditions, and social reproduction.[5]

In this context we can understand the economic and social significance of remittances. If migrations constitute a system of transference of labor in a globalized world, from the Third World to the economies of the developed world, remittances represent a system of wage transfers, not only in an inverse sense, but inherent to this global process that frames current international migrations, in at least two senses.

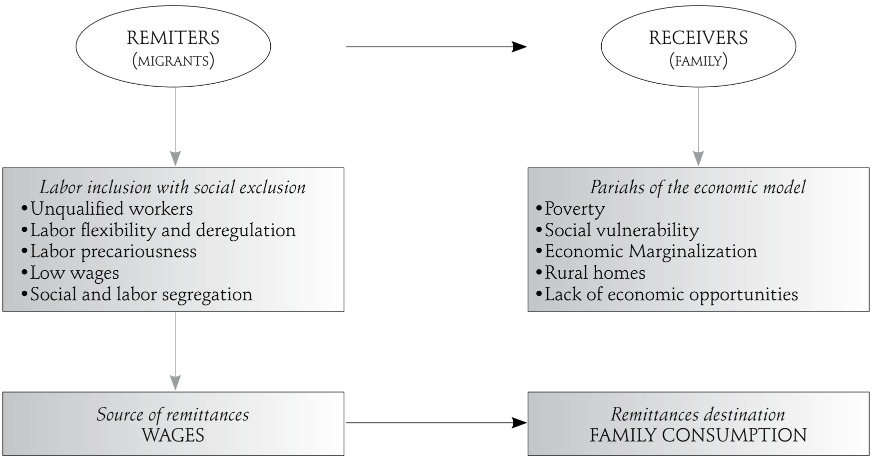
- Remittances are a fraction of the wages and remunerations of the migrant labor force in those global markets. They are a part of the pay that migrant labor receives, which has the same macroeconomic function as any other wage: the reproduction of the labor force. What is unusual in this case is that the reproduction of the labor force occurs in binational contexts and in globalized labor markets, which are sustained by the establishment of transnational communities and families. Remittances are thus the form in which this fraction of migrant wages is transferred to their families and communities of origin for family and community social reproduction, just as any other wage income in these same communities (or other communities). Remittances are undoubtedly a wage fund; this is their significance and function as a macroeconomic variable.
- Remittances are not only a part of the process of the transnational reproduction of the migrant labor force but also of the structural conditions of the social exclusion and labor precariousness faced by this labor force. That is to say, when analyzing the economic and social significance of remittances, we cannot ignore this global context of exclusion and social segregation that characterizes migrant labor insertion as they (remittances) are a direct product of that global context. This structural framework of migrants' exclusion and social segregation is without a doubt what allows us to differentiate between the social character and significance of remittances received by developing countries and those received by industrialized economies of the First World.[6]

Thus, remittances are not only a wage fund but also correspond to the wage income of workers who combine a labor insertion of high vulnerability and precariousness in the United States with conditions of poverty, marginalization and social vulnerability in their countries of origin.

[5] In this framework, we sustain the thesis that the poverty and precariousness of migrant workers are not the result of their exclusion from the labor market but quite the contrary; they are means of integration into the labor market. In the current context of economic deregulation and labor flexibility, modernization generates and reproduces its own forms of poverty and precariousness in which the condition of social vulnerability of individuals, their condition of social, demographic and cultural minority –a construct based on conditions of gender, ethnic group, migration– ceases to be the risk factor that exposes them to a possible economic exclusion becoming instead the necessary condition for their inclusion.

[6] Up until the year 2000, roughly speaking, over 40% of the world's remittance flow went to highly developed countries, and was generated by highly qualified migrants inserted in various economic enclaves maintained by these countries in Third World economies (ECLAC, 2006).

In other words, remittances flow from precarious and vulnerable workers to their families who live in conditions of poverty in contexts of social marginalization. In this context, it is not strange that remittances should be oriented fundamentally to financing family consumption, contributing to maintaining a minimum standard of living while at the same time, the necessary sums and volumes necessary for promoting a genuine process of social mobility do not flow[7] (the following diagram illustrates this idea).



From this conceptual model we can distinguish at least two types of remittances, both with the same origin, the labor remunerations of migrants; and with a same economic function, the social reproduction of migrants, their families and communities of origin.

Firstly, we identify those remittances oriented to financing various aspects of family reproduction. Among these remittances we can identify those that finance daily consumption (present consumption), those that permit the purchase of durable consumption goods, those that contribute to financing unforeseen expenditure or family health emergencies, unforeseen debts, among others, and those that make up a kind of present saving for financing future consumption, as well as those that could represent types of family capital, such as financing children's education, or construction, remodeling and/or home-buying.

Secondly, we can identify those remittances oriented to financing various aspects and dimensions of the social reproduction of families and communities. Among these remittances we can mention those spent on family ceremonies and relations, such as family celebrations (*quince años*, that is, 15th birthday parties, weddings, baptisms, among others) and those that finance community ceremo-

[7] In a recent study, ECLAC documents the low absolute sum of remittances received by homes in Latin America. Taking into consideration only homes that receive remittances, it is estimated that monthly remittances received in 2002 per capita in Central America, for example, fluctuated between $18 (Nicaragua) and $45 dollars (El Salvador). The same study documents, moreover, that the volume of remittances per capita in all countries of the region is well below the poverty line, as defined in each country by the corresponding official organisms. For more details, see ECLAC [CEPAL], 2005.

nies and relations, such as religious festivals, community celebrations, social infrastructure, among many others.

This conceptual diagram allows us to provide theoretical support to an approach to remittances, in which they are basically wages generated by migrants that are transferred and channeled towards families in their communities of origin.

However, we understand that this is not the only approach to remittances. Others hold that remittances are an investment fund (capital transfer, or capital-remittances). The main limitation to this approach is that it does not ensue from a broader conceptual framework which provides theoretical support to this definition of remittances as capital transfer.

Due to their economic significance and function, we can define this type of remittances as a *capital transfer* which, by definition impacts directly on productive activity, unlike wage-remittances which, as we have seen, have an indirect effect. Nonetheless, there are no global approaches we can use for analyzing and explaining this type of remittance-capital. Unlike wage-remittances, whose conceptual meaning was derived from a general theory of international migration in contemporary society, this type of capital-remittances does not seem to have a theoretical reference framework.

Indeed, the very origin of capital-remittances is not the same as wage-remittances. In the latter case, we have a structural framework that gives meaning and significance to remittances and migration in contemporary society. Capital-remittances seem to be an ambiguous and diffuse concept that involves many dissimilar categories and situations.

At this time, the origin in this case no longer seems relevant, unlike in the case of the wage fund approach to remittances. In fact, the character of capital, that is, as a productive investment fund, is defined in function of the receiving country, not the remitting country. In the case of wage-remittances, on the other hand, the starting point framework supposed that its concept and meaning was the same in both cases, i.e., that its origin was the wage or remuneration for migrants' work and that remittances perform the same function as any other wage income, in terms of supporting the family's social reproduction.

Capital-remittances, however, seem to be a matter of individual processes that are hard to generalize, and thus it is much more complex to formulate any general rule for explaining this kind of transfer. The migration process that generates them ensues from a larger variety of explanatory and triggering factors. There are not only structural factors but also individual and casuistic elements that are much more complex to model conceptually and theoretically.

Unlike the theory of labor migration, the labor, contract and structural conditions of accumulation in migration destination countries does not appear to have the same relevance in this case. Moreover, individual factors acquire greater relevance, such as those related to the enterprising attitude of the migrant, his socioeconomic profile, etc, which differentiates them from the classical model of the migrant and labor migration.

In this case, although the migrants who remit are inserted into the same circuit of global labor migration as other labor migrants, they are not part of this labor migration flow, as far as their structural determinants are concerned. Their migration stems from other causes: the lack of resources, credits, and other necessary support for financing a productive business or infrastructure projects. In this case, we can affirm that migration and remittances arise as an opportunity when faced with an absence of options traditionally offered by the market, the State, NGOs, as well as international organisms and the governments of developed countries through their policies and programs of cooperation for development (Canales and Montiel, 2004).

What is relevant is that there is no theorization that explains this type of displacement and non-labor migration, beyond the merely descriptive frameworks that allow for the characterization of some aspects of these migrations, but never manage to explain or understand them, at least not systematically and as in-depth as we can do with labor migration.

In this sense, where there has been more progress is in a description of types or modalities of capital transfers, defined on the basis of their use in destination communities, and thus completely devoid of a conceptual framework to explain them.

To conclude, in the following table we present an example of a typology of remittances that includes both those we have defined as Wage-Remittances and those we have defined as Capital Remittances.

A Typology for the Analysis of Remittances

Wage-Remittances (Family)	Family Reproduction	Wage-Remittances	Direct consumer goods and services
			Durable consumption goods
		Family savings-Remittances	Future consumer goods and services
		Emergency-Remittances	Health, unforeseen expenses, etc.
		Family Capital-Remittances	Housing, cars, etc.
			Education
	Social Reproduction	Family Spending-Remittances	Celebrations and family ceremonies (quince años, weddings, baptisms, funerals, etc.)
		Community Spending-Remittances	Celebrations and family community ceremonies (religious, socials, etc.)
Capital-Remittances (productive)	Remittances-Private Investment	Urban business investment	Fixed capital, working capital, reinvestments, tax payments, etc.
		Agricultural investment	Land and machinery, consumables, livestock, etc.
	Private Savings-Remittances	Speculative Savings-Remittances	Deposits in banks, cash pools, loans, etc.
	Collective Savings-Remittances	Savings-Social Productive Investment	Productive infrastructure, communication and transport, etc.
	Social Investment-Remittances	Social Investment-Remittances	Public goods, social infrastructure, parks and gardens, etc.

Even when these capital transfers do not have a conceptual framework that defines and explains them, they should not be simply ruled out. In economic and empirical terms, they might be important, even if we cannot explain what they are. In this sense, what we have noted in the previous section is the conceptual and theoretical weakness of the dominant discourse regarding remittances and their alleged economic impact. However, their empirical weakness, which would constitute an even greater weakness, in view of the interests and proposals ensuing from this dominant discourse, has yet to be demonstrated.

For this purpose, we will make use of econometric models that allow us to estimate the determinant factors of remittances, and on the basis of these, demonstrate the economic significance and character of remittances. If we can discover what the factors that determine the macroeconomic behavior of remittances are, then we can discover what type of macroeconomic category remittances really are.

Our hypothesis is that remittances essentially constitute a type of wage transfer, and occasionally and sporadically a savings-investment fund or capital transfer. Thus, if remittances are in fact a wage transfer, then it is to be expected that, as a macroeconomic variable, their behavior is much more sensitive to the socioeconomic and living conditions of the population than to the conditions of investment and economic growth of each country. In other words, in terms of their macroeconomic behavior, remittances are much more similar to a family income than a savings and productive investment fund.

In order to demonstrate this thesis, we now present an econometric model that relates the volume of remittances to different macroeconomic variables. It is a linear regression time series model, through which we can estimate the macroeconomic determinants of remittances. We have applied this model to four countries in the region (Mexico, Colombia, El Salvador and the Dominican Republic), in an attempt to cover various economic situations, and which could be seen to represent the different geographical sub-regions of Latin America. The countries have high volumes of remittances and joined the international circuit of remitters over two decades ago. This last point is important as it allows us a relatively broad temporal horizon of observation, in order to grasp the evolution and tendency of remittances in different macroeconomic contexts and situations in each country.

In the following table we present the macroeconomic dimensions and variables included in the model. The dependent variable corresponds to the annual volume of remittances estimated by the central bank of each country; the data refer to each calendar year from 1980 to 2004.

Macreconomic model of remittances
(Time Series Model)

SOCIOECONOMIC CONDITIONS
Minimum wages in the Country of Origin Minimum wages in the United States Inflation in the Country of Origin
MACROECONOMIC CONDITIONS
Exchange rate in the Country of Origin GDP growth in the Country of Origin GDP growth in the United States Competitivity Index of the Country of Origin
FINANCIAL AND EXTERIOR CONDITIONS
Interest rates in the Country of Origin Interest rates in the United States Balance of Trade Direct Foreign Investment Export Value (FOB)

We have included three types of independent variables: those that measure the evolution of the population's living conditions; macroeconomic variables that measure the dynamics of the national economy, its cycles and tendencies; and variables that measure the financial conditions of savings and investment at all times.

From our point of view, if remittances are a type of family income, then it is to be expected that they will be much more sensitive to the living conditions of the population, responding to the cycles of each economy. However, if remittances are a savings and productive investment fund, then it is to be expected that they will be more sensitive to the financial conditions at all times.

In the following table we present the results of the best adjustment model for each of the four countries chosen. What is interesting about this model is that it automatically chooses those variables that are statistically more significant in the explanation of the dependent variable (annual volume of remittances in each country), and it excludes those other variables that do not contribute significantly to the explanation of the behavior (variance) of the dependent variable.

According to these results, we can establish the following findings:

- In every case, the socioeconomic conditions of the population are a determinant factor in the volume of remittances. In particular, the volume of remittances tends to increase when the minimum wages decrease in the countries of origin, and/or when the minimum wages in places of migration destination increase. In the first case, it tells us that remittances are an anti-cyclical fund that counter arrests the negative effects of crises on the level of family income, or in other words, that faced with drops in family income (wages), migration and remittances are seen as a viable option for maintaining, as far as possible, the family's standard of living and level of consumption. In this sense, it can be inferred that remittances appear to contribute to reducing the effects of crises on the population's poverty level.

In the second case, an increase in the volume of remittances when wages increase in destination countries is expected, as it indicates that remittances depend directly on the level of migrants' available income. What is relevant in these relationships is that they systematically reproduce in the four countries considered in this model, even though they are dissimilar economies, each having different dynamics over the last 25 years.

- As far as the role of the macroeconomic structural conditions of each economy is concerned, a systematic relationship is observed that shows that remittances tend to respond inversely to the dynamics of economic cycles. Indeed, the volume of remittances increases in situations of crisis, characterized by drops in the GDP, devaluations in exchange rates, and/or loss in the levels of external competitivity.

  These results allow us to corroborate a thesis that we have already signaled in previous works, in that they allow us to define remittances as a negative anti-cyclical and inflexible macroeconomic variable (Canales and Montiel, 2004). The anti-cyclical character allows us furthermore to reinforce our general thesis of understanding remittances as family income, rather than as an investment fund.
- Finally, it is interesting to note that remittances systematically show no significant statistic relation with regard to financial and investment variables. Indeed, in every case, remittances do not seem to be determined by the behavior of interest rates, either in the country of origin or destination of migration, nor do they tend to have a similar behavior to that of other investment funds, such as Foreign Direct Investment.

  In other words, the econometric model tells us that there is no statistical evidence that allows us to define remittances as a productive investment fund. On the contrary, the model shows us that the macroeconomic behavior of remittances bears no significant statistic relation to the traditional determinants of productive investment.

In synthesis, the analysis of the determinants of remittances allows us to conclude that in macroeconomic terms, their dynamics and behavior do not correspond to those of a savings or investment fund, but rather to a family income which, in the guise of family transfers, contributes to compensating the negative effects of recurrent currency devaluations, the loss of wages' purchasing power, and the loss of competitivity of our economies caused by the reiterated crises and the recessive cycles of Latin American economies.

Econometric Model of the Macroeconomic Determinants of Remittances

MÉXICO		COLOMBIA		DOMINICAN REP.		EL SALVADOR	
VARIABLES INCLUDED IN THE BEST ADJUSTMENT MODEL							
Socioeconomic Conditions							
Minimum Wage MEX	–0.329	Minimum Wage COL	–1.051	Minimum Wage DOM	0.275	Minimum Wage SAL	–0.161
Minimum Wage USA	0.186	Minimum Wage USA	0.372	Minimum Wage USA	0.420	Minimum Wage USA	–0.397
Macroeconomic Conditions							
Exchange Rate	0.662	Exchange Rate	1.581	Exchange Rate	0.386	Competitivity Index	–0.226
GDP Growth MEX	–0.128			GDP Growth DOM	–0.342		
				GDP Growth USA	0.201		
Financial and Exterior Conditions							
						Interest rates SAL	–0.375
						Exports	0.830
VARIABLES EXCLUDED IN THE BEST ADJUSTMENT MODEL							
Socioeconomic Conditions							
Origin Country Inflation		Origin Country Inflation		Origin Country Inflation		Origin Country Inflation	
Macroeconomic Conditions							
GDP Growth USA		GDP Growth Origin Country		Competitivity Index		Exchange Rate	
Competitivity Index		GDP Growth USA				GDP Growth Origin Country	
		Competitivity Index				GDP Growth USA	
Financial and Exterior Conditions							
Origin country interest rates		Origin country interest rates		Origin country interest rates		Interest rates USA	
Interest rates USA		Interest rates USA		Interest rates USA		Trade Balance	
Trade Balance		Trade Balance		Trade Balance		Foreign Direct Investment	
Foreign Direct Investment		Foreign Direct Investment		Foreign Direct Investment			
Exports		Exports		Exports			
R^2	0.967		0.871		0.987		0.975
R^2 Adjusted	0.959		0.845		0.978		0.968
Degrees of Freedom in the Best Adjustment Model	18		15		8		16
Degrees of Total Freedom	24		18		13		21

CONCLUSIONS

Remittances are undoubtedly an important source of income for the receiving families. If we add to that the magnitude that they have reached in recent years, the optimism of national governments and international organisms in their discourse should come as no surprise. It is common to read the reports of public organisms and hear declarations made by government officials in which the significant contribution of remittances towards poverty reduction and the promotion of the development and welfare of families is mentioned, among many other supposed benefits (SEGIB, 2006; World Bank, 2004; CEPAL, 2000).

However, when reviewed in more detail, those same reports show that this optimism is based on nothing more than wishful thinking and good intentions, rather than on statistical data and empirical evidence. In this sense, we have tried to document the Latin American experience with data; a critical vision, not pessimistic, of the role and impact of remittances.

What stands out is that there seem to be no logical (theoretical) arguments that allow us to infer that remittances could play a relevant role as promoters and/or financers of economic development. On the contrary, as we have shown here, the macroeconomic behavior of remittances is much closer to being a type of wage transfer than a family or private investment fund. Moreover, these wage transfers tend to be greater and more important in those countries with higher levels of poverty and lower levels of development. Productive investment financed by remittances thus not only does not reach the necessary levels for promoting a process of development, but moreover occurs in very unfavorable macroeconomic environments that limit and restrict their real impact.

If we consider that migration is an essentially labor phenomenon, then it is logical to suppose that remittances constitute the mechanism as migrant worker wages to be transferred to their homes in the countries of origin. It is thus more logical to expect these wage transfers to be used for sustaining family consumption. There is, furthermore, no logical or empirical reason that allows us to suppose that these families should have a behavior and economic rationale any different from any other family that does not receive remittances. That is, remittances are a wage fund for them which, as in the case of the majority of worker families, forms the basis of their family income. These wage transfers, therefore, contribute to improving the standard of living of the receiving homes but are not far from representing a strategy that allows them to overcome and solve the structural problems that perpetuate poverty (Canales, 2007a; Székely and Rascón, 2004).

To these limitations of remittances we add another important factor. Remittances also reflect what is, essentially, a marked class character. They are not just a wage fund but correspond to workers' wage income that combines a labor insertion of high vulnerability and precariousness in the United States with conditions of poverty, marginalization and social vulnerability in their countries of origin.

In conclusion, the low monthly sum of transfers received by each family allows us to understand the character and economic and social significance of remittances. They are wage income, which just like any other, is destined to family consumption. Furthermore, the small average sum by receiving home tells us that we are dealing mainly with low-income families and workers, immersed in situations of social vulnerability and economic precariousness. They are poor strata, with many deficiencies, where remittances con contribute to palliating this situation of poverty, but in no cases solve it.

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