OUTSOURCING WELFARE

How the Money Immigrants Send Home Contributes to Stability in Developing Countries

ROY GERMANO

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For Candice and Violet

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Outsourcing Welfare

1

Remittances and the Politics of Austerity

Coping with poverty and risk is a way of life for the world's poor. Droughts, natural disasters, political instability, violent conflict, economic crises, public health emergencies, and other shocks create great suffering for people living at the margins. To insulate themselves from market, environmental, and life course risks, many poor families do their best to diversify income, pool resources, and self-insure through saving.[1] But often the very economic conditions that families aim to guard themselves against cause their coping and self-insurance strategies to fail. It is difficult, for instance, to diversify income if one's local economy is limited to rain-fed agriculture or poorly paid informal work. It is impossible to save much when wages are low and economic crises or natural disasters are frequent.[2] To more effectively manage poverty and risk, some families spread themselves out geographically, sending members to work in places where wages are not only higher but also uncorrelated with economic cycles at home.[3] If all goes as planned, those who emigrate will be in a position to save and send money home to support or insure those who were unable or unwilling to leave. By diversifying their income portfolios across different industries and locales, poor households

can use remittances—money that migrants send home—to mitigate poverty and reduce the pain of economic shocks.[4]

Some people emigrate as part of an explicit household coping strategy. They leave home for a few months or a few years with the goal of saving and sending as much money as possible to spouses, children, parents, and siblings who have remained in the home country. They keep their expenses in the destination country to a minimum—sometimes living in tight quarters with other migrants to save money on rent—and work long hours, often in difficult, low-wage jobs. At some point, they hope to return home and reunite with their family members more prosperous than when they left.

Javier, for instance, a small-plot strawberry farmer from Mexico, migrated to the United States when he could not pay back debts after a bad harvest. His wife Carolina and their young children remained at home in Mexico while he worked as a line cook at a Tex-Mex restaurant in Atlanta, Georgia. In Atlanta, Javier worked long hours and barely spent anything on himself—"fasting," as Carolina described it. He sent much of the money he earned back to Carolina so she could purchase things like food, shoes, clothing, and school supplies for the kids. The rest went to savings. After a few years of hard work in the United States, Javier returned to Mexico with enough money to build a brick home to replace his family's wooden shack.[5]

In contrast to Javier, millions of people emigrate with their families, or with the intention of starting one, and plan to settle indefinitely in their new country. They are motivated by the prospect of finding work or starting a business, escaping violence or persecution, or giving their children opportunities they would not have back home.[6] And while they may not migrate as part of an explicit household coping arrangement like Javier did, many send remittances to friends and relatives back home out of a sense of duty, love, and genuine concern for their welfare.[7]

Alana, for example, migrated to the United States in 2006 from Trinidad and Tobago. She supports herself and her three kids, all of whom live with her in the United States, with money she earns working as a nanny and doing other odd jobs, such as braiding hair. Then she takes whatever amount she can spare—usually about two hundred dollars a month—and

sends it to relatives back in Trinidad. The family members she helps support include her father, her grandmother, her sister, and her aunts. Typically, they spend her remittances on basics like food, medicine, and school supplies. In addition to the regular amounts she sends every month, Alana often sends extra money when relatives call or text asking for more help. She says this usually happens when food prices in Trinidad are high or a relative has a medical emergency. In these instances, Alana says she assesses the situation and thinks about how much she can afford to send and how much she thinks her family members need.

I asked Alana if she ever expects to be repaid when relatives contact her asking for extra support. "Never," she replied. "If somebody back home calls me and says, 'I don't have food at my house,' I think, *What if I didn't have food?* So I send them money. When I give, I know a blessing will come back to me, so I don't look back for anything from the person I am doing it for."[8]

Rasel also immigrated to the United States in 2006. Although he is married with a baby and making a life for himself in New York, Rasel still manages to set aside two hundred dollars every month from his salary as a community organizer to send to his sixty-seven-year-old mother in Bangladesh. Rasel's mother uses the money primarily to buy medicines to treat her diabetes and high blood pressure. When he has a little extra money to spare, Rasel tries to help extended family members or people in his home village, such as a young girl who had an accident and needed a surgery that her family could not afford.[9] Similarly, Adolfo religiously sends one hundred dollars a week back to his native Guatemala—an impressive feat considering that he doesn't earn much more than minimum wage stocking shelves at a corner deli in Brooklyn and has a wife and child of his own in the United States to support. Adolfo usually sends money directly to his mother and younger sister, which they use to buy food and other basics. When I asked Adolfo why his mother needs the money, he said because she is too old to work. Her husband, Adolfo's father, passed away. She would be destitute without her son's assistance.[10]

It is tempting to think of the money people like Javier, Alana, Rasel, and Adolfo send home simply as a gift from one family member to another.

Taking a broader view, however, these transfers of cash start to look like much more. International migrants, in fact, are filling a significant welfare gap in many developing countries and, as I will argue in this book, helping to reduce the severity of economic grievances that fuel political instability and civil unrest.

REMITTANCE FLOWS TO THE DEVELOPING WORLD

The United Nations estimates that about a quarter of a billion people live outside their country of birth.[11] Millions of these migrants—no one knows exactly how many—send relatively small sums of money to friends and family back home on a regular basis. Some send remittances from Western Union or through their banks. Others wire money from internet cafes, twenty-four-hour check-cashing shops, currency exchanges owned by conationals, or automated kiosks inside of small convenience stores. Some immigrants send money using the latest text messaging and smartphone technologies—through mobile apps like WorldRemit and TransferWise—while others still send money the old-fashioned way as cash or money orders mailed in envelopes or in the pockets of friends who are returning home.

How much do they send? No one knows the exact quantity of remittances that flow between countries because so much of it is difficult to track. However, based on records of money sent through formal remittance channels like banks and wire transfer services, the World Bank estimates that international migrants transferred about $5 trillion to developing countries between 2000 and 2017.[12] In 2017 alone, migrants sent an estimated $450 billion to the developing world through formal remitting channels—nearly twice the amount they sent through formal channels a decade earlier.[13]

To put this amount into perspective, Figure 1.1 shows the flow of remittances and government aid to developing countries from 2004 to 2014. We can see that remittances grew significantly over this period (some of this growth, however, was due to better record-keeping) while the flow of aid remained relatively constant. The gulf between remittances and aid

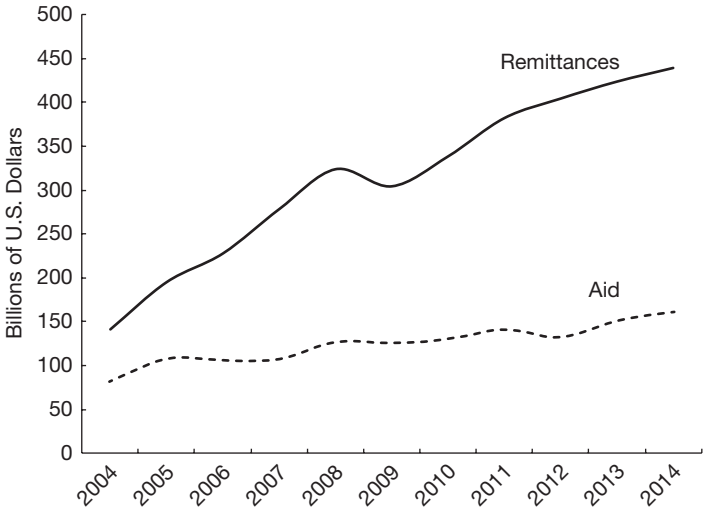

Figure 1.1 Remittances and aid flows to developing countries, 2004–2014.
SOURCES: World Development Indicators (rev. August 2016); World Bank Migration and Remittances Data (rev. April 2016).

reached its highest point yet in 2014 when international migrants sent an estimated $443.8 billion to developing countries and the world's richest governments donated $135 billion in the form of aid and official development assistance.[14] This difference is worth emphasizing. International migrants, many of whom work low-paying jobs that few others want, contribute more than three times as much toward fighting poverty in the developing world than the governments and taxpayers of the world's richest countries.

Remittances are a large and important source of income to dozens of developing countries. The top remittance-receiving countries are India and China, which received an estimated $62.7 billion and $61 billion from international migrants in 2016. Other countries with large remittance incomes include the Philippines (estimated at $29.9 billion in 2016), Mexico ($28.5 billion), Pakistan ($19.8 billion), Nigeria ($19 billion), Egypt ($16.6 billion), Bangladesh ($13.7 billion), and Vietnam ($13.4 billion).[15] For the most part, the top remittance-receiving countries have relatively large populations and large economies. When we measure

remittances only in total dollar amounts, we therefore run the risk of overlooking the importance of remittances to many smaller developing countries. Figure 1.2 demonstrates just how large remittance income is relative to the size of the domestic economy in twenty-five small developing countries. Starting at the top of Figure 1.2, we can see that remittances are equivalent to more than 20 percent of gross domestic product (GDP) in Nepal, Liberia, Tajikistan, Kyrgyz Republic, Haiti, Moldova, and the Gambia and 10–19 percent of GDP in Honduras, Lesotho, Jamaica, El Salvador, Lebanon, Kosovo, Jordan, Armenia, Senegal, Palestine, Georgia, and Guatemala. Remittance income is furthermore equivalent to 5–10 percent of GDP in the Philippines, Nicaragua, Yemen, Guyana, Togo, Sri Lanka, Bangladesh, the Dominican Republic, Pakistan, Vietnam, Ukraine, Ghana, and Egypt. Overall, remittances are equivalent to 5 percent of GDP or greater in more than fifty developing countries.

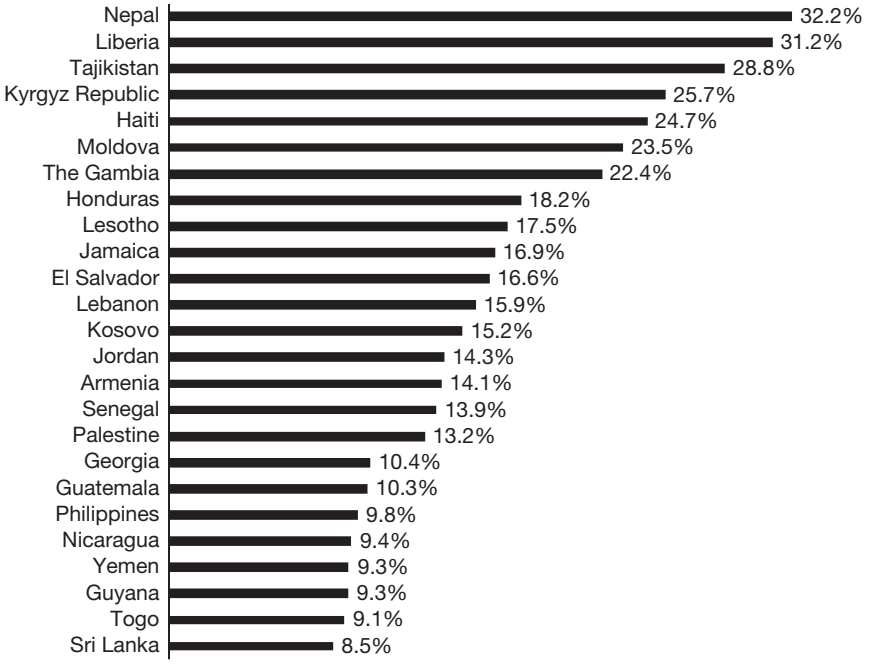

Figure 1.2 Remittances as a percentage of GDP in 25 developing countries in 2015.
SOURCE: World Bank Migration and Remittances Data (rev. April 2017).

Yet another way to measure the flow and importance of remittances is in terms of how many people in a country receive them. Figure 1.3 shows aggregates from nationally representative surveys conducted in recent years in the Middle East, Africa, Latin America, the Caucuses, and the Caribbean. Listed is the percentage of respondents who reported receiving remittances from a family member abroad at least once or twice a year. As we can see from these surveys, remittance recipients make up a significant share of the population throughout the developing world. A staggering 49 percent of the population in the small island countries of Haiti and Cabo Verde, for instance, reported that they receive remittances at least occasionally, as did 46 percent of the Jamaican population. Remittance recipients make up a large

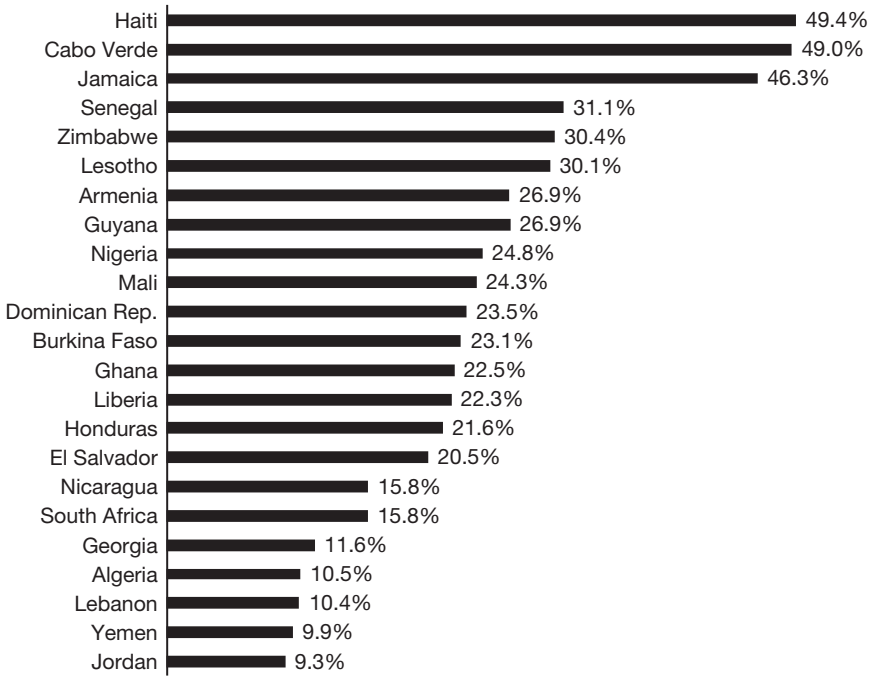

Figure 1.3 Percentage of national populations that reported receiving remittances at least once a year.
SOURCES: Afrobarometer (2009); Arab Barometer (2011); Caucuses Barometer (2013); Latin American Public Opinion Project (2014).

share of the population in a number of other countries. About 30 percent of people living in Senegal, Zimbabwe, and Lesotho receive remittances at least occasionally, as do 20–27 percent of people living in Armenia, Guyana, Nigeria, Mali, the Dominican Republic, Burkina Faso, Ghana, Liberia, Honduras, and El Salvador. Moreover, 9–16 percent of the population receives remittances at least occasionally in Nicaragua, South Africa, Georgia, Algeria, Lebanon, Yemen, and Jordan.

REMITTANCES AS SOCIAL WELFARE

Remittances are impressive not only because they are such a huge source of income to so many developing countries but also because migrants send most of this money altruistically without conditions or expectations of profit, interest, or repayment.[16] Like Javier, Alana, Rasel, and Adolfo, most people who remit do so because they feel a sense of duty to family and genuine concern for the welfare of their loved ones.[17] Because altruism is so often the driving force behind the decision to send money home, remittance flows tend to be both stable and countercyclical, meaning that migrants typically send more money when relatives back home are facing some sort of crisis or emergency.[18] We have already seen the countercyclical nature of remittances at the individual level. Javier, for instance, emigrated and sent money following a bad harvest on his farm in Mexico. Alana sends more when food prices in Trinidad and Tobago increase. Rasel sent more money when a member of his village in Bangladesh needed a critical surgery. The countercyclical nature of remittances can also be observed at the macro level. When a devastating earthquake struck Nepal in 2015, for example, the Nepali diaspora immediately sprang into action and sent millions of dollars to family and friends in need of shelter, food, and medical assistance.[19] Similarly, remittances to the Philippines increased after a deadly typhoon in 2013; to Haiti after a massive earthquake in 2010; and to Sri Lanka after a catastrophic tsunami in 2004.[20] Remittances also rise when human-made crises cause suffering. Remittances to Yemen, for instance, surged between 2011 and 2012 amid the political,

social, and economic upheaval that surrounded the resignation of President Ali Abdullah Saleh and much of his government.[21] Remittances also rise when economic crises strike developing countries.[22] For example, citizens abroad pumped more money into the Mexican economy during its 1995 currency crisis and into the Thai and Indonesian economies during the 1997 Asian financial crisis—periods when many foreign investors were pulling money out.[23]

Remittances are a critical lifeline for millions of families. Although some remittances are invested in income-generating ventures, like small businesses and agriculture, and in long-term investments like health and education, the vast majority are spent on immediate consumption needs and basic goods and services. In a survey I conducted in ten Mexican communities with high rates of out-migration, a majority of respondents who received remittances (57 percent) said that food is the most common item they purchase with remittances. When asked to name the top three things they buy with remittances, respondents mentioned food 30 percent of the time; medicine and healthcare 21 percent of the time; utilities like electricity, gas, and water 18 percent of the time; clothing 10 percent of the time; and education 4 percent of the time.[24]

Similar spending patterns have been observed throughout the developing world. A study by the Bank of Jamaica found that Jamaicans spend 85 percent of their remittances on basic goods and services, such as utilities, food, housing, and education.[25] A survey in Kosovo found that 90 percent of remittances are spent on food, healthcare, education, clothing, and housing.[26] A survey in Ghana found that 90 percent of remittance recipients use remittances for food, 70 percent for clothing, and 20 percent for education.[27] A survey by the Bangladeshi government estimates that about 39 percent of remittances to Bangladesh are spent on food, while 24 percent are used to repay loans taken out to pay for expenses associated with moving abroad, including labor recruitment fees.[28] In Indonesia, 96 percent of respondents whose only income comes in the form of international remittances said they use remittances to buy food; 74 percent said they use remittances to pay for utilities; 73 percent said they use remittances to fund transportation costs; and 70 percent said they use remittances to pay

for education. Among respondents who have income in addition to remittances, 68 percent said they use remittances to buy food, 55 percent for utilities, 57 percent for education, and 27 percent for home maintenance and repairs.[29] According to the Central Bank of the Philippines, 93 percent of remittance-receiving households use remittances for food, 72 percent for education, 63 percent for healthcare costs, and 50 percent for paying off debts.[30] Remittances are largely spent on food, healthcare, and education in Burkina Faso and Uganda, and overwhelmingly spent on food in Senegal.[31]

By allowing households to continue consuming even when local economic conditions are unfavorable, remittances reduce poverty, raise standards of living, and give families more freedom to make long-term investments in housing, education, and health.[32] The largest beneficiaries of remittances, of course, are the people who receive them directly, but the positive effects extend to others in the community when remittances stimulate local spending and commerce. When remittance recipients spend money on food at local markets, purchase new appliances at local shops, and hire neighbors to help them build new homes or till newly purchased land, this puts money in the pockets of other people in the community, creating or sustaining jobs and stimulating another round of spending.[33]

OUTSOURCING WELFARE

The citizens of wealthy Western democracies are able to count on any number of social insurance and subsidization programs in times of need. Unemployment compensation and trade adjustment assistance help households manage job loss. Agricultural subsidies and crop insurance provide a safety net to farmers and help them compete in global markets. Food assistance programs, social security, and public health insurance help poor families, older people, the disabled, and entire societies manage unforeseen economic shocks.

Most people living in the developing world, on the other hand, lack adequate social welfare protections. In the absence of a strong commitment

from the governments of developing countries to provide a safety net, migrants abroad fill a significant welfare gap. Their remittances insulate poor households from macroeconomic crises, economic mismanagement, and political and social upheaval.[34] They keep smallholder farmers from going into debt during droughts or when they are priced out of local markets by foreign competition.[35] They help families rebuild after natural disasters. They keep food on the table when harvests are bad, when food prices surge, when jobs are lost, when family members fall ill, and when small businesses go under. For hundreds of millions of people around the world, it is their family members abroad—not their governments—that have assumed the primary social responsibility of ensuring a minimum level of economic security.

Remittances can therefore be thought of as *transnational safety nets*. They are *transnational* because they flow over national borders. Their transnational nature is advantageous because it means that flows are less likely to be disrupted by the same economic problems that remittances are sent to address. Remittances are a *safety net* because they help poor families more reliably meet basic consumption needs during times of economic crisis. As a transnational safety net, remittances serve a function similar to the kinds of social protections that many wealthy governments provide to their citizens.[36] Like unemployment insurance and trade adjustment assistance, remittances allow people to keep paying the rent even when they are put out of work by foreign competition. Like food stamps, they allow families to buy food even when global food prices are on the rise. Like fuel subsidies, they help families afford cooking gas and heating fuel even when global fuel prices surge. Like agricultural subsidies and crop insurance, they allow small farmers to keep their heads above water when they have a bad harvest. Like health insurance, they help poor people make doctor's visits and afford medicines they need to survive. Like social security programs, they compensate people who cannot work due to disability or old age.

Remittances have become a particularly critical safety net in the current era of neoliberal globalization. Developing countries have become more open to the vicissitudes of global markets in recent decades, but instead

of establishing robust welfare states like their counterparts in postwar Europe and North America, most governments in the developing world retrenched or have engaged in procyclical social spending that falls far short of the kinds of universal welfare programs established in Western democracies.[37] In many developing countries, spending cuts were a precondition for establishing more market-oriented systems. The governments of many developing countries, for example, once used public funds to subsidize (i.e., artificially lower) the prices of agricultural inputs like seeds and fertilizer so that smallholder farmers could spend less to grow their crops. Moreover, many governments used, and to some extent still use, food, fuel, and transportation subsidies to keep prices artificially low in urban areas where the potential for civil unrest is high.[38] Many governments eliminated or greatly reduced these subsidies as part of structural adjustment reforms adopted since the 1980s. Prices on everyday goods and services rose, and poor people were left spending more of their hard-earned income just to survive.

Austerity has come at a time when people in developing countries need more, not fewer, social protections. Neoliberal globalization has made the poor increasingly vulnerable to economic shocks. Trade liberalization, for instance, has opened small producers in developing countries to competition from behemoths abroad, pricing poor farmers and mom-and-pop businesses out of local markets and creating legions of angry, unemployed citizens in need of a social safety net. National economies have furthermore become increasingly interdependent, leaving the poor more vulnerable to the booms and busts of global capitalism and the whims of international investors living thousands of miles away. The economic pressures resulting from austerity and global market integration have torn at the social and political fabric of many societies. Between 1976 and 1992, 146 grievance-fueled food and austerity riots took place in thirty-nine developing countries, including El Salvador, Jamaica, Sierra Leone, Bolivia, Zambia, Poland, Jordan, Nepal, and Egypt.[39] In some countries, like Peru and the Dominican Republic, riots led to the ascendance of opposition candidates; in others, such as the Philippines and Haiti, leaders were overthrown.[40] Unrest related to austerity and globalization continued through