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**New Perspectives on Remittances from
Mexicans and Central Americans
in the United States**

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Multidisciplinary Perspectives on Remittances from Migrant Workers in the United States

Germán A. Zárate-Hoyos
Editor

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Foreword

Donald F. Terry
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Since 2000 the Inter-American Development Bank, through its Multilateral Investment Fund (MIF), has been working to improve the development impact of remittance for migrants and their families. Efforts have aimed to: i) develop a better understanding of remittance flows; ii) reduce the cost of sending money home; and iii) to expand the financial choices available to migrants and their families, thereby increasing the development impact of these flows.

Over the last six years great progress has been made in improving remittances data, as well as in reducing the costs of money transmission. Previously, remittance data were largely hidden in the “errors and omissions columns” of national balance of payment statistics, but improved collection methods now reveal that these flows exceed the combined total of foreign direct investment and official development assistance in the region for each of the last three years. Meanwhile, the costs of sending money have fallen by about *two thirds*, meaning that recipients in 2006 had \$5 billion *more* in their pockets than they would have if costs had remained at pre-2000 levels.

However, remittances remain financial flows in search of financial products. Much more needs to be done in Latin America and across the globe in order to leverage these resources and to provide transnational families with greater choice and access to the financial system. Despite surging interest in the subject, tenacious historical, legal and regulatory, and cultural obstacles continue to impede the integration of remittance senders and receivers into financial sector of the region.

A current debate also deflects discussion from the search for concrete mechanisms to improve the development impact of migrant remittances. Arguments now rage as to the degree to which remittances alleviate poverty, stimulate growth and development, promote dependency in countries of origin, among other discussions. While healthy and academically interesting, such discussions have tended to gloss

over two salient facts: (i) developing economies continue to generate excess labor, adding upwards of 40 millions new workers a year to the global workforce, and (ii) in a world of excess labor and growing international wage asymmetry people will continue go where the jobs are, legally or otherwise. Remittance transactions are taking place every day, and these transfers can only increase in the future.

For centuries people have migrated from depressed rural areas to urban locales in search of work. That dynamic has not changed, but as a result of globalization migrants can now bypass urban areas in their own countries and fill higher-paying jobs in developed countries. As long as developed economies need migrant labor and unemployment in developing countries remains high, while wages remain low, migration, and its thus remittances, will increase.

Many economists who had never heard of remittances six years ago now express concerns about the “negative impacts” of these flows. They argue that remittances cause so-called “Dutch disease,” or exchange rate appreciation that leads to a loss of competitiveness, among other ill effects. First, it should be stated that remittances are no cause for celebration – these flows are evidence large scale development failure and the dislocation of tens of thousands of families and many communities. But neither are remittances the *cause of underdevelopment*. Remittances may in some cases contribute to inflationary pressures, but any negative impact is relatively small compared to the positive benefits of increased purchasing power for lower income households and increased foreign currency reserves. In an ideal world huge differences in opportunities and wages would not exist among countries, and remittances would not be necessary. But in the real world remittances sustain many millions of households; indeed, it is impossible to imagine the conditions for many families in the absence of these resources.

Remittances are now the largest poverty reduction program in the world. For an estimated 8 to 10 million families in Latin America and the Caribbean these funds provide food, shelter, and other basic necessities that keep these families above the poverty line. In addition, remittances help households maintain their consumption levels through economic shocks and adversity, and support vital investments in education, health, and entrepreneurship.

Moreover, the remittances market is incredibly dynamic. While economists weigh the relative merits of remittances, private investors, remittance senders and recipients, banks, credit unions and other financial institutions have already placed their bets on the future and are rapidly creating a dynamic and increasingly powerful new market. Migrants, who are often optimistic risk-takers and capable of increasing their earnings by as much as 1000%, can deliver great energy, generosity and creativity to their communities of origin and families. These migrant entrepreneurs send billions of dollars home and manage to divert a portion of these funds into savings and investment. A recent IDB survey revealed that at least 20% of the more than \$60 billion in remittances to Latin America is used for activities other than consumption.

The debate over the development impact of remittances is reminiscent of the early skepticism expressed by mainstream financiers and economists regarding the ability of poor people to repay loans from financial institutions. Traditional thinking demanded formal documentation, identity, and guarantees before making loans to poor people, while micro-entrepreneurs were not on radar screen of formal economies, and operated in a shady “informal” world. Visionaries in grassroots NGOs ignored conventional wisdom and launched on-the-ground experiments that have fully refuted conventional assumptions. Economists, having missed the early importance of remittances, now debate the desirability of these vital resources, instead of investigating new opportunities presented by this growing market. Have we had some development successes? Yes. Can we do more? Definitely.

Microfinance, having pioneered non-traditional methods to make loans to micro-enterprises, has developed a variety of innovative financial products for the poor. Product diversification is a proven model, and microfinance institutions now offer a range of loans, including for housing construction and improvement, savings accounts, insurance, and debt and credit card products – all to clients that while poor, are discerning, loyal, and profitable.

In Latin America, microfinance is a \$6 billion business, and growing at rates exceeding 30% per annum and, in many cases, financially outperforming

conventional banks. Microfinance pioneers understood from the beginning that new financial models could harness and shape entrepreneurial productivity. At the same time, financiers, NGOs and civic leaders learned that microfinance was not merely a poverty alleviation tool, but also a good business model.

Something similar is happening with remittances and migration. While some analysts continue to question whether remittances are some type of a “development fad” or whether they contribute to growth and development, financial services companies are proceeding with a broad array of new product offerings to meet increasingly sophisticated clients. Entities such as *Banco Agricola* in El Salvador, *Mi Casita* in Peru, and *Su Casita* in Mexico are offering mortgage loans to immigrants abroad who are buying new homes back home. In 2004 *Mutualista Pichincha*, in Ecuador, began to finance new home acquisition in Ecuador by Ecuadorians living in Spain and the United States. These loans now amount to \$24 million and represent 18% of Mutualista’s entire mortgage portfolio.

When the MIF started looking at the issue of remittances in 2000, the money transfer operators (MTOs) were criticized for their high prices. At that time, 10% or more of each transaction in the LAC region was kept by the MTO as a fee, and, typically, at least an additional 5% was charged through an ever-changing system of foreign exchange mark-ups. After many years of increasing awareness and competition among money transfer operators (MTOs), the average cost to send \$200 in the region has been reduced considerably to 5.6% (\$11) and Latin America has moved from being one of the most expensive remittance markets in the world, to being one of the cheapest.

MTOs have also been forced to reduce costs in order to meet competition through increased efficiency, streamlining, and a reduction in their profit margins. While there is still room for more cost reductions (through, for example, increased transparency so that customers can more easily compare services), in the last five years LAC has gone from being perhaps the most expensive remittance market in the world to one of the least expensive. New data clearly show that cost is no longer a major factor in the remittance industry, thereby freeing up significant resources for investment and local development.

Currently, the most pressing issue in LAC and the rest of the world is to provide remittance recipients and their families greater access to the formal financial system. Perhaps the most surprising and provocative indicator revealed by a recent MIF “scorecard on the remittance industry” deals with the distribution network of remittances. Until now, a common assumption has been that because remittances are generally cash-to-cash transfers outside the financial system, most remittances are distributed through a retail store or money transmitter licensee such as a *bodega*. This assumption is wrong.

According to MIF scorecard data, the majority of remittances to LAC, 54%, are distributed through a bank, cooperative, credit union, microfinance institution, or other type of deposit institution. Unfortunately, only a very small percentage of remittances transferred through the financial system are currently going into bank accounts.

The reality is that in the vast majority of instances where banks are distributing remittances, they serve merely as a licensed distribution agent for a MTO. Indeed, remittance operations are kept separate from other bank operations – sometimes even physically separate from the teller line available to account holders. By contrast, cooperatives, credit unions, popular banks, and microfinance institutions have a better record of attracting remittances into accounts – although there is still significant room for improvement. As a result, there continues to be a missed opportunity to put millions of LAC families on a pathway to credit and participation in the financial system.

In effect, banks in the region are acting as *bodegas*. Month after month about 10 million families across the region pick up their remittances at a bank branch office – almost half of them in Mexico. In the great majority of cases, banks remain uninterested in converting remittance clients into deposit account holders. This indifference is due to a perceived lack of profitability of these clients, a shortage of products, legal and regulatory obstacles, poor commitment by bank management to serve the region’s majority, and cultural assumptions about the poor.

It does not have to be this way. Where banks have made a concerted effort to turn remittance customers into deposit holders, programs at least 30% of recipients have opened new accounts. If banks were to seriously develop the remittance recipient market with a region-wide conversion program, more than 3 million new clients and an additional \$1 billion in deposits could be created year after year.

Banks such as *Banco Salvadoreño* in El Salvador have targeted the needs of remittance recipients with specific products, and have enjoyed increased deposits and market share. There are numerous other examples of microfinance institutions and credit unions that have also successfully served this market.

It is abundantly clear that there is demand for these products. The challenge remains for other institutions to make a similar commitment to the remittance deposit market. When the legal, regulatory, and cultural obstacles are overcome, remittance recipients will respond to the right products and have been found to be excellent clients. Indeed, when offered the opportunity, remittance recipients are more likely, on average, to open a deposit account than are non-recipients.

Attitudes toward “banking the poor,” from upper management to the teller line, must change in order to reach these clients and to develop appropriate products. At the same time, financial education about this market for governments, financial institutions, and remittance recipients is imperative. The actors on the supply side – banks, credit unions, community banks, MFIs, and MTOs – need substantive education concerning the demand for financial products and outreach strategies. Banks need to identify the economic and financial preferences of migrants and their families.

On the demand side, it is of critical importance to educate and raise the awareness of migrants and recipients concerning the relationship between finance, employment and economic activities. The level of awareness on the part of many recipients is very low or nonexistent. With financial education the majority of families can benefit from participation in formal banking sector. Banks can also implement new technologies in order to reduce the cost of serving these clients and making those accounts more profitable. Firms also need to examine their business models to see if

they are technologically flexible and take advantage of new products such as banking through mobile telephone technology.

Financial institutions across the board need to take advantage of this opportunity, and governments need to remove the legal and regulatory obstacles to serving this population. Even though the topic of remittances is enjoying a day in the sun, the people who send and receive these funds too often remain in the shadows. Deep seated cultural, historical, and regulatory challenges need to be overcome in order to foster financial inclusion and put these families on a pathway to credit. Toward this end, the MIF is working with a wide variety of institutions and organizations, both public and private, in developed and developing countries to help make the needed changes a reality.

When migrants and their families are brought into the financial system they will have much greater access to small business loans, housing mortgages, and other financial products. Individual banks would be able to capture a greater percentage of remittances flows, and thereby increase their liquidity and national savings. Most importantly, tens of millions of families throughout LAC would become greater stakeholders in their own futures. We now know how to count remittances. The time has come for the people who send and receive them to also count.

Preface to the Second Edition

The second edition of this book contains a number of substantial changes but remains true in its approach to the empirical study of migration and remittances by looking at the relevant issues from different disciplinary perspectives. The authors contributing to this volume come from diverse disciplines such as demography, sociology, economics, geography, and social science in general. Some of the authors used different data sources such as the National Survey of Demographic Dynamics (ENADID), the National Income and Expenditure Surveys (ENIGH), the Survey to the Northern Border (EMIF), the mid-decade Mexican Population Census as well as the 2000 Mexican Population Census to shed some light on the effects of remittances on receiving households. Other authors used their own field studies to generate new data to answer a variety of questions about migration and remittances.

Alejandro Canales' chapter three "Migrant Remittances: Savings Fund or Wage Income" was updated with data from ENIGH 2002 to support his findings that remittances are just another form of wage income. Rafael Alarcon, who teamed up with Luis Escala, for chapter 5 "Transnational Philanthropy and Organizational Strategies: The Challenge of Mexican Hometowns Associations in the United States" analyzed their previous field data to look at the still quite understudied role of collective remittances in the context of the broader issue of transnational philanthropy. They argue that remittances are private transfers which are sometimes applied to social projects but cannot be stretched to function as private investment. In Chapter six, "Can Remittances Spur Growth in Local Communities? The Case of Los Altos de Jalisco, German Vega using his field work in Jalostotitlan, Jalisco, which could not be replicated, interprets his previous findings in light of the recent literature. The same is true for Rodolfo Corona and Jorge Santibanez' chapter one "Mexican Migrants and Remittances to Mexico", who used the ENADID (National Survey of Demographic Dynamics) to tease out what the survey can show about migration and remittances patterns in Mexico. Rodolfo Corona was awarded the National Prize in Demography by then President Vicente Fox in 2003. The chapters by German Zarate-Hoyos on the SAM multiplier effects could not be updated because of the heavy data requirements. There are no new input-output tables

available for Mexico on which to base a new Social Accounting Matrix. The chapter on consumption patterns presented elsewhere remains the same.

Two completely new chapters were added to the English version. Chapter seven “The ECLAC Remittances Case Studies in Central America: Lessons and Evidence” by Jorge Martinez replaced the chapter by Pablo Serrano in the Spanish version because the original contributor retired after many years of service to the UN Commission for Latin America (ECLAC) in Mexico City. Jorge Martinez graciously agreed to provide some continuity by giving us the history of the ECLAC’s involvement and early contributions in the area of migration and remittances in Latin America. Chapter eight by Scott Anderson and German Zarate-Hoyos did not appear in the first edition but aims at capturing some new areas of research in the remittance field. Hopefully these chapters will entice researchers to continue examining remittances from different disciplinary perspectives and to use any available data source to look at the still many unanswered questions in this exciting field of research. Scott Anderson also provided extensive editorial revisions to the original manuscript.

This new edition in English was generously financed by the Multilateral Investment Fund office of the Inter-American Development Bank but the views reflected here are entirely of the authors and not of the Bank.

CHAPTER 1: MEXICAN MIGRANTS IN THE UNITED STATES AND THEIR REMITTANCES

Rodolfo Corona Vázquez and Jorge Santibáñez Romellón
El Colegio de la Frontera Norte

1.1 Introduction

Migration from Mexico to the United States has been ongoing since the middle of the 19th century. It is driven by the economic disparities between these two neighboring countries, and in particular, by the coexistence of two factors—the need for cheap, unskilled labor in the United States, and a supply of Mexican workers unable to find stable well-paid employment in Mexico. Strong social and family networks have facilitated the movement of people out of Mexico. This migration has increasingly been intertwined with the economic development of these two nations and has seen a conspicuous swelling in the number of people involved in these international movements. Particularly in recent decades, the number of Mexican migrants has risen glaringly. For example, there has been an exponential increase in the number of Mexicans who have emigrated permanently to the United States. In the 1960s, between 26,000 and 29,000 Mexicans emigrated annually while during the 1970s, the figures ranged from 120,000 to 250,000, and by the 1980s, it was 210,000 to 260,000.¹ Then, during the 1990s, the flows reached 277,000 to 315,000 Mexican emigrants to the United States per year.

Facing this growth in the size of the migratory flow, it is becoming ever more necessary to understand the diverse factors that shape and characterize it. Among the factors that stand out is the size of the movements and the numbers of migrants, which reveal the demographic impacts and let us estimate the significance of migration's social repercussions. Equally important is determining the amount of remittances sent back to Mexico in dollars by migrants from earnings realized in the United States because it shows the

¹ Ranges for permanent net migration of Mexicans to the United States for 1960 to 1969, 1970 to 1979, and 1980 to 1989 are estimates based on census data and vital statistics collected in both countries (see Corona:1993, 1994).

complementarities of the two countries' labor markets. Labor migrants send remittances home while they temporarily reside and work in the United States while Mexicans who now permanently reside in that country also send remittances back home but in lower quantities. Those funds reveal the prevalence of strong familial, affective, and cultural ties that permanent residents in the United States still maintain with Mexico.

The very concept of "remittance" needs to be defined with care. On one hand, it is important to connect it to the income of Mexicans in the United States. A remittance is, after all, only a portion of the wages that a migrant receives, and under that reasoning, it is important to know what part of that income goes to relatives in Mexico, and how the remainder is used and what impacts that has on the migrant-sending local economies. On the other hand, to gauge the impact of remittance money on the Mexican households that have sent migrants to the United States, it may be necessary to incorporate other sources of income that are not traditionally classified under the rubric of "remittance." For example, consumer goods that migrants bring home during visits could be counted, as could the migrants' actual expenditures during those visits when that spending benefits their families (for example, tourist activities). The income of the so-called "commuters" or transmigrants—residents of Mexican border communities who travel daily to the United States to work—could also be counted. Although transmigrants are paid wages in the United States, by far most of that money is spent by the migrant's household in Mexico.

In this chapter, we recognize that there are also people residing in Mexico who are "enmeshed" in migration to the United States even though they themselves do not migrate. This concept of "enmeshment" is operationalized first through a quantification of several different migratory modalities (that is, by establishing the numbers of migrants in each modality) and then locating those migrants in the households to which they belong (or to which they belonged, in the case of those who have emigrated permanently). Similarly, we determine which households receive remittances from the United States. We compare the various household types (households with or without migrants, and households

receiving or not receiving remittances), and for the resulting household categories, we determine certain sociodemographic, economic, and spatial characteristics. This lets us estimate more accurately the number of Mexican residents who are enmeshed in migration to the United States. Finally, at the household level, international migration is contrasted with internal migration, and data on internal remittances are also discussed.

It is worth keeping in mind that it is extremely complicated to determine the size of migratory flows (in terms of numbers of migrants and numbers of migrations), to say nothing of calculating the amount of dollars remitted or identifying the locations of the recipients of that money. Both technical and methodological difficulties are inherent in the generation (or estimation) of data associated with a phenomenon characterized by, among other things, spatial mobility, a variety of sending and receiving communities, rapid changes in circumstances (arising from the enactment or amendment of legislation or measures aimed at impeding border crossings or creating obstacles to remaining in the United States), and, for many migrants, their status as illegal U.S. residents.² As a consequence of these challenges, and because of the importance of these migrations both to Mexico and the United States, various efforts have been recently made to design and apply analytical methods that could achieve more exact estimates. Above all, it has been necessary to produce more numerically precise statistical information that is better adapted to the traits of the migration phenomenon by establishing alternative methods for capturing data based on retrospective questions.³

Several things are of vital importance in designing and implementing strategies to maximize the benefits of remittances: precision in estimating the number of international migrants; knowing the number and characteristics of the households enmeshed in this process; knowing the remittance amounts and understanding their impacts on households and economies in both the

² For a pair of explanations about the technical difficulties in measuring and estimating the number and characteristics of Mexican migrants to the United States, see Corona 1994, 620-626; 1997, 35-52.

³ For a description of the efforts made in both countries to improve the quality, quantity, and exactitude of the data and the estimates on Mexican migrants in the United States, see Bean et al., 1998, 1-90.

sending and receiving communities; and comprehending the possible differences between households and societies that receive remittances and those that do not. Given the importance of remittances and the growing numbers of Mexican families enmeshed in migration, it is critical to optimize the way in which remittance resources are utilized and also to increase the impacts of those funds. This is not occurring today to the degree that it should.

This chapter uses direct and indirect data from the 1997 *Encuesta Nacional de la Dinámica Demográfica* (National Survey on Demographic Dynamics, ENADID-97). Because of its broad coverage, both spatially and conceptually, this survey was one of the most important in Mexico in terms of generating data on migrants. Moreover, thanks to the ability to search its database by individualized records, it has been possible to combine and use the various units of observation and the various definitions of migrants and of other variables used in this survey (such as whether or not remittances are received from abroad, and in cases when they are, the amount sent). This made it possible to group households based on the traits of their members (for example, whether members migrated internationally, if remittances are received, members' incomes, members' educational levels, and so forth).⁴

1.2 Quantifying Mexican Migration to the United States

The 1997 National Survey on Demographic Dynamics has two distinguishing features: One is the size of the sample, which makes it possible to use data, and interpret the results, at the level of each of the individual Mexican states. The other trait is the emphasis the survey placed on the quantification of

⁴ Mexico's Instituto Nacional de Estadística, Geografía e Informática (INEGI) administered the ENADID-97 between September and December 1997. Its general objective was to update the statistical information on the sociodemographic behavior of Mexicans. Questionnaires were designed to collect information through direct interviews with qualified informants who were members of households in a sample, which covered an average of 2,500 households in each state in Mexico, approximately 80,000 households in all. These domestic units were selected through a stratified sampling scheme, done in stages nationwide. The survey's technical, methodological, and conceptual features can be found on INEGI's website: <http://www.inegi.gob.mx>

migrations, both internal and international. This is visible in the incorporation of various migratory modalities as a subject of study—movements within the country and movements out of and into Mexico—and also through the inclusion of various, but to some degree complementary, approaches for quantifying the spatial movements of people.

Regarding international migration by Mexicans, and given that the data in the survey refers to individuals whose primary residence is Mexico, the ENADID-97 used two methods:

- a determination of the migratory status of each resident in the sampled households, using retrospective questions. This step identifies four main categories of migrants to the United States: “labor migrants” (lived and worked or are living and working in the United States), “return migrants” (went to the United States but have returned to Mexico), and “non-labor migrants” (lived in the United States without working there and who have now returned), and “traditional labor migrants,” who worked in the United States without changing their primary residence in Mexico; and
- the detection of any household members who permanently changed their primary residence to the United States at any point during the five years prior to the interview, that is, people who have emigrated to the United States.

According to the results of the first of these two methods, at the end of 1997, 93,189,663 people of Mexican birth resided in Mexico (table 1.1). Of those, 1,698,483 (1.82% of all the native Mexicans) were “return migrants,” individuals who now lived in Mexico but who had previously lived in the United States. Similarly, a set of almost 3 million individuals (2,895,693) were “labor migrants,” defined as those individuals who were Mexican by birth and twelve

years of age or older who had gone to, or were currently in, the United States with the objective of working or looking for work.⁵

These two modalities of Mexican migration to the United States are generally analyzed separately because their corresponding measurements come from distinct data sources and because they are conceptually distinct categories. However, because ENADID-97 included both, these modalities can be analyzed together, and more importantly, they should be analyzed together, since they are not exclusive categories: A total of 1,259,278 people are both “labor migrants” and “return migrants,” having both lived and worked, and then returned, from the United States (table 1.1). In most cases, the interviewees identified their most recent trip to that country as being both the last time that they went there to work and the last time that they lived there.⁶ Two other groups of migrants should also be considered (table 1.1): “non-labor migrants,” a set of 439,205 people who had resided in the United States, but who did not work while they lived there and who had now returned; and “traditional labor migrants,” a set of 1,636,415 individuals who entered the United States solely to work, and who did not consider this to constitute a change in primary residence from Mexico to the United States.

⁵ This high number of labor migrants shows how strongly the Mexican and U.S. labor markets are interconnected, since this number of labor migrants represented 3.11% of all of Mexico’s inhabitants in 1997, 4.29% of all the country’s residents 12 years of age or older, and 7.45% of Mexico’s economically active population.

⁶ The survey did not formally identify if this was the same trip to the United States as the one in which the person claimed to have lived and worked there since these were answers to two different questions. However, in more than 80% of the cases, the dates of leaving and returning for one or another type of movement were the same (prior to 1997). Based on that, it is possible to assume that in general, these were one and the same migration.

Table 1.1 Migrant and non-migrant native-born Mexicans residing in Mexico, 1997

Did you ever live in the United States between '93-'97?	Did you ever work in the United States?				Total	
	Yes: Labor migrant		No: Not a labor migrant			
	Number	%	Number	%	Number	%
Yes: return migrant	1,259,278	1.35	439,205	0.47	1,698,483	1.82%
No: not return migrant	1,636,415	1.76	89,854,765	96.42	91,491,180	98.18%
Totals	2,895,693	3.11	90,293,970	96.89	93,189,663	100.00%

Source: Prepared by the authors based on ENADID-97 records.

When combined, these three migrant categories (labor migrants—both “traditional” and “return”—and non-labor migrants) total 3,334,898 Mexican-born individuals residing in Mexico in 1997, all of whom had migrated to the United States at some point. That figure represents 3.58% of all residents of Mexico in that year. In order to focus the analysis on more recent years, the measurement of the size migratory flows centered on the five years prior to the survey: 1993, 1994, 1995, 1996, and 1997 (1997 was nearly over when the ENADID-97 survey was taken). By classifying return migrants based on the year of their last return to Mexico after having worked or lived in the United States, the 3,334,898 migrants can be disaggregated into two groups of nearly equal size: 1,872,736 having returned before 1993, and 1,462,162 having returned during one of the five years between 1993 and 1997. This latter set—“recently returned migrants”—can be disaggregated into the three migrant categories and shown in relation to all other Mexicans residing in Mexico at the end of 1997 (table 1.2).⁷ Comparing the figures for recent migrants (table 1.2) with all migrants (table 1.1), it is apparent that recent migration constitutes a major proportion of all return migration. That highlights, in part, the recent increase in numbers of migrants. For example, among the 1,259,278 migrants

⁷ The 1,462,162 migrants who returned to Mexico between 1993 and 1997 consisted of 681,670 people who lived and worked in the United States, 215,624 migrants who only lived there, and 564,868 traditional labor migrants.

who returned to Mexico after living and working in the United States, 54.1% (681,670) had returned during the five previous years.

Table 1.2 Native-born Mexicans residing in the United States between 1993 and 1997, by work status

Did you ever live in the United States at any point between 1993 and 1997?	Did you work in the United States at any point between 1993 and 1997?				Total	
	Yes: Labor migrant		No: Not a labor migrant			
	Number	%	Number	%	Number	%
Yes: return migrant	681,670	0.73%	439,205	0.23%	897,294	0.96%
No: not return migrant	564,868	0.61%	89,854,765	98.43%	92,292,369	99.04%
Totals	1,246,538	1.34%	90,293,970	98.66%	93,189,663	100.00%

Source: Prepared by the authors based on ENADID-97 records.

The second method for identifying international migration using ENADID-97 was intended to quantify the volume of international emigration of a permanent nature.⁸ The results in this regard show that between 1993 and 1997,⁹ 1,279,515 Mexicans had moved to the United States and were still living there at the time of the interviews.¹⁰ Thus, on average, an annual average of

⁸ The method involves administering questions directly to residents in the households that had been selected in the sample. In order to determine, first, whether or not members of the sampled household had gone to live abroad at some point during the five years prior to the survey. Once it had been established that there were one or more and migrants in the household, questions were asked about their principal characteristics. Notably, in relation to the migrant's most recent migration, the interviewee was asked to identify the country to which the migrant had gone, the date of the emigration, and the migrant's place of residence at the time of the interview. This made it possible to detect international return migrants who were once again residing in Mexico at the time of the survey.

⁹ In a strict sense, the period was almost six years covered, since the questions were for the time from January 1992 until the period between September and December 1997. With the aim of creating a five-year period comparable to that established for return migrants, in this work, we have eliminated the data corresponding to 1992. In this way, the reference interval for emigrants from the households became the five-year period between 1993 and 1997.

¹⁰ This method also detected the existence of another group of migrants: those who had returned during the same five-year period in which they had left. A total of 624,918 Mexicans had emigrated to the United States and returned from there between 1993 and 1997. The size of this figure is similar to the number of return migrants (of those who had lived in in the United States) that was obtained through

255,903 people emigrated permanently during that five-year period. Although this is likely an underestimate of total permanent emigration,¹¹ for Mexico, the number still represents a large annual average loss of nearly 2.5 people for every 1,000 inhabitants in the country.¹²

It should be pointed out that both modalities of migration; returned migrants (those who worked or not in the U.S. but now reside in Mexico) and permanent migrants (those who moved to the U.S. and did not return between '93-'97) comprise distinct sets of migrants, since some people are "return migrants" (physically residing in Mexico at the time of the interview) while others emigrated permanently between 1993 and 1997. In order to grasp the size of the phenomenon, it is necessary to add the figures for both of these modalities: the total number of return migrants (3,334,898) and the total number of people who had moved to the United States between 1993 and 1997 and had not returned to Mexico (1,279,515), for a total of 4,614,413. This figure, which represents a rate of accumulated migration to the United States of 4.95% (or the percentage of migrants from both modalities as a proportion of Mexico's total population), is a minimal benchmark, and irrespective of each

traditional questions about birthplace and place a previous residence (that is, using the first method mentioned above). This group totals 897,294 people: 681, 670 went to live and work in the United States plus 215,624 migrants resided in that country without working there (see table 1.2). This approximate consistency in the calculation of the number of return migrants—which is also verified in reviewing key states from which they emigrated, sex, ages, and other traits (such as kinship, civil status, and level of schooling)—lets us suppose that the ENADID-97 achieved a data capture technically acceptable for the number of permanent emigrants. That is, the value 1,279,515 permanent emigrants in the period from 1993 through 1997 can be considered a reasonable calculation, although certainly an underestimation, of the size of immigration to the United States that involves a change of residence. The under estimate of the number of permanent migrants results from the inability of the method in question to account for emigrants and single person households and those individuals and households in which all the members have emigrated to the United States.

¹¹ The figure of 255,903 annual emigrants is a lower than the numeric range established by the Estudio Binacional (Binational Study) for the same category of migrants in the period from 1990 through 1996 (between 277,000 and 315,000 emigrants per year). That is, based on this comparison and assuming that the Binational Study's estimate is correct, the size of permanent emigration estimated by the ENADID-97 (based on the household members who went to live in another country), the underestimate may be in the range of 7.6% to 18.8%.

¹² It is worth mentioning that the the sociodemographic profile of people emigrating permanently to the United States found in the ENADID-97 is similar to that found in other research studies. For example, there are more men; the age structure is young, with emigrants concentrated in the early years of economic activity; and the distribution across place of origin leans towards western central Mexico, including Michoacán, Jalisco, Guanajuato, San Luis Potosi, and Zacatecas, precisely the region that has traditionally emitted migrants to the north.

measurement's precision, it does not give us the total size of Mexican migration to the United States, because, conceptually, the method that attempts to identify permanent emigration does not include any data on emigration that occurred prior to the survey's five-year period. Moreover, in the period that is covered, the survey did not capture data on emigrants who lived alone or who went to the United States together with their entire family.

1.3 The migrants and their households in Mexico

Several important questions are raised by linking the data about migrants and Mexican households. To which households did the return migrants who had lived or worked in the United States belong? Which households emitted permanent emigrants? In what parts of the country are households with emigrants found? How many migrants are there in migrant-emitting households? The answers to these questions as well as to questions relating to the composition of households with migrants can be obtained using indicators formed by combining the data on the people who make up the household. This is achieved by taking the original records from the survey's database, which correspond to individuals, and transforming them into records for households, while keeping, blending, or transforming certain personal characteristics of each household's members, such as migratory characteristics.¹³ The foregoing implies a change in the unit of observation, from the individual to the household. This change was made because, as anthropological research in both small rural communities as well as an urban neighborhoods in Mexico have revealed that the household is the best unit of analysis for issues of household maintenance, functioning and also for studying

¹³ The household database contains one record per household, and each household is structured by aggregating the corresponding information for the records of all of its members, which individually are identified as such in the archive in the file, because they have the same household address and share expenditures. That is the identification of members of each household responds to the definition adopted by the ENADID-97: a household is "a domestic unit formed by one or more persons, whether or not they are united by kinship, who reside permanently in the same house and share expenses for food..." (INEGI 1999)

the consequences of international migration. Thus, by working with the household as the unit of analysis (and consequently with numeric indicators for households), but utilizing data that allow for statistical inference, it is possible to have elements that connect the qualitative with the quantitative, and that can serve to determine traits that distinguish some households from others in terms of household characteristics and migration behaviors.

The objective of this work is only to achieve a more adequate estimate of the size of migration. In this regard, the household seems to be the unit that is closest to reality, since the people who move to the north (generally the father and/or the oldest son) are not the only ones enmeshed in migration. The family members who remain behind are also affected, as their survival depends to a great measure on the dollars that can be earned by the migrant. Because of that, household members directly benefit from the income earned abroad, although they also confront the hardships occasioned by the migrant's absence, which is often prolonged and can affect family structure and cohesion in a variety of ways. Thus, the household that counts one or more migrants among its members can be considered as being involved in the migration dynamics.

The first step to achieve this change in the unit of analysis is to identify the households that have family members who can be counted among the 3,334,898 return migrants, and the households with family members who could be counted among the 1,279,515 people who permanently emigrated to the United States between 1993 and 1997. Of the 21,100,477 households in Mexico at the end of 1997, 3,432,801 households (16.3% of the total) had, at some point, had one or more of family members migrate to the United States—evidence of the very high level of contact with that country—and of those households, 59.3% (2,034,708) had had one or more family members emigrate or return in the past five year (table 1.3)

Table 1.3 All Mexican Households

	HOUSEHOLDS WITH MIGRANTS (in thousands)							Total nationwide
	HOUSEHOLDS WITHOUT MIGRANTS TO THE UNITED STATES	Members migrated between 1993 and 1997					Total with migrants	
		With migrants only prior to 1993	With only return migrants	With return and permanent migrants	With only permanent migrants	Total with migrants 1993-97		
Households	17,667	1,398	1,079	268	686	2,034	3,432	21,100
Population	77,448	6,276	5,137	1,315	3,012	9,465	15,741	93,189
Total Migrants	-	1,579	1,408	734	891	3,034	4,614	4,614
Return Migrants	-	1,579	1,408	346	-	1,755	3,334	3,334
Permanent Emigrants	-	-	-	387	891	1,279	1,279	1,279
	%	%	%	%	%	%	%	%
Households	83.7	40.7	53.1	13.2	33.8	59.3	16.3	100
Population	83.1	39.9	54.3	13.9	31.8	60.1	16.9	100
Total Migrants	-	34.2	46.4	24.2	29.4	65.8	100	100
Return Migrants	-	47.4	80.3	19.7	-	52.6	100	100
Permanent Emigrants	-	-	-	30.3	69.7	100.0	100	100

Source: Prepared by the authors based on ENADID-97 records.

Regarding data at the household level as in Table 1.3 above, what relationship exists between permanent emigrations and the return migrations covered in the previous sections? Besides their contribution to increasing the size of the migratory flows, investigating this relationship turns out to be unfeasible since, from the perspective of the traditional focus that utilizes the individual as the unit of analysis, the set of permanent emigrants is a distinct set from that which is made up of persons identified as return migrants. In other words, the two types of migrations are independent manifestations, in so much as an individual cannot simultaneously reside in two countries at once. As a consequence of the impossibility of belonging simultaneously to both migratory

types, it is understood that the people in one set cannot be in the other set, and the migratory modalities that they represent cannot be connected, unless individuals are grouped into other natural units that are socially, economically, or spatially cohesive, such as towns, labor unions, or families. In the case of the households, it is necessary to identify which households include people who are return migrants and which households are associated with individuals who have emigrated permanently. The objective is to observe with what frequency and in what situations we find a household that has one or more family members who are return migrants and one or more who are living permanently in the United States. A total of 268,050 households were identified where both migratory modalities (returned and permanent) coexist, which represent 13.2% of the 2,034,708 households that experienced a family member's migration between 1993 and 1997 (table 1.3). Those 268,050 households had a total number of 1,315,023 members, of which 346,501 had returned from the United States during the five-year period (an average of 1.3 return migrants per household). Additionally, of those households in that same period, another 387,979 household members (an average of 1.45 per household) had left to live in the United States, where they were still residing at the end of 1997.

Table 1.3 also shows how it is possible to connect migrations that occurred in different periods, in this case through the identification of households where two or more members returned from the United States either prior to 1993 or between 1993 and 1997. Specifically, 1,398,093 households accounted for those 1,579,564 migrants whose last return from a stay in the United States had occurred before 1993. The latter figure is lower than 1,872,736 migrants mentioned earlier because it includes 293,172 migrants who returned home for the last time between 1992 and 1997.¹⁴

¹⁴ These migrants represent 8.8% of all return migrants, and their existence does not change the number of households with members who migrated between 1993 to 1997 (because households with at least one return migrant or one family member who had migrated during that period are identified as such). However, it does alter the figure for migrants, from 1,462,162 migrants who returned to their households in those five years (see table 1.2), to 1,755,334 return migrants, who, in 1997, were members of the

1.4 Remittances from the United States and the migration of Mexicans

With the goal of quantifying all of the income for Mexican families, the ENADID-97 asked questions about remunerations for economic activities carried out by each household member aged 12 or older, as well as questions about the receipt of other income, including remittances from the United States¹⁵ and domestic remittances from other parts of Mexico.¹⁶

The survey found 691,527 households in which one or more members had declared that they were receiving "supplemental income from family members living in another country" (this represented 758,924 people or an average of 1.1 recipients per household), and it constituted NP\$1,014 mil. monthly in funds received (or annually, US\$1,536 mil).¹⁷ Due to the method applied, however, this underestimates the true size of remittance flows. The question as posed has at least four limitations that occasion this underestimation:

- remittances in kind are not considered, and their value is not included, although often, these are high-value items, such as home appliances, agricultural equipment, or vehicles;
- another source of money that may have been omitted is that sent by family members who were absent during the survey, and whose

households where least one family member had returned from the United States or had emigrated to that country.

¹⁵ In reality, the reference was not to the United States but to "another country." However, since almost all international emigration (more than 98%) by Mexicans is destined for the neighboring country to the north, in this work, we are assuming these referenced remittances were from the United States.

¹⁶ As posed, the questions already in themselves allude to their origin: Do you receive supplemental family income from another country? Do you receive supplement family income from inside the country? These questions largely reflect the widely utilized concept that identifies remittances as the portion of income earned in another place (another country or another part of Mexico) that is sent or brought back to the family in the community of origin.

¹⁷ The monthly amount of remittances in pesos at the end of 1997 was converted into an annual figure in dollars that assumed that the same quantity would arrive each month and applying a factor of 7.9231 pesos per dollar, which was the monthly average of the exchange rate recorded by the Bank of Mexico during 1997 (Bank of Mexico 1997).

contribution may not have been viewed as “supplemental family income” but rather as an obligatory contribution, based on the existing family relationship (for example, when it is a matter of the household head who is working in the United States or elsewhere in Mexico);

- benefits income from employment held in the United States, such as accident indemnification, pensions, vacation pay, and so forth, was also not counted; and
- money brought home in person by return migrants was also not counted (for example in the case of labor migrants, who returned with U.S. earnings in their pocket. This situation is especially important when it is a matter of migrants living near the United States, and who cross the border frequently to work in that country.

In order to partially resolve the underestimation of the amount of remittances, two income sources considered in the ENADID-97 were used to constitute the income. Specifically, an attempt was made to minimize the effect of the last two limitations. In one case, the algorithm utilized considered income that return migrants declared as “retirement funds or pensions” to be remittances. The supposition that supports that calculation is that these financial benefits are the result of work performed in the United States during one or more periods of residence there. The results show that 84,203 return migrants from the United States were living in 83,206 households, and these individuals received “retirement income or a pension,” which totaled NP\$147 million per month, or US\$223 million annually. It is worth pointing out this amount is in the same order of magnitude as estimates done in the United States on financial flows sent to Mexico (by the U.S. Social Security Administration) relating to retirement or disability payments for workers and their families.¹⁸

¹⁸ Zárte-Hoyos (1999) reports that U.S. Department of Health and Human Services estimates were, for example, US\$180 million (1989), \$220 million (1990), \$235 million (1991), and \$241 million (1992).

In the other case, it was decided that the income of migrants who declared that they cross into the United States on a daily or weekly basis to work (the so-called transmigrants or commuters) should also be counted as remittances. These migrants reside in border cities, and a total of 111,092 were identified, being members of 97,501 households (on average 1.14 per household). They declared total monthly remunerations of NP\$595 million pesos or US\$901 million annually.

Thus, the total remittance figure that we calculated, based on the ENADID-97, is the sum of three sources of income: supplemental income sent by family members living in another country, pension and retirement funds from migrants who have returned from the United States, and transmigrant income. This represents NP\$1,756 mil. monthly or US \$2,660 million annually. The number of households that receive these remittances does not precisely match the number of households that receive the three sources of income because 2,723 households are at the intersection of these categories. For example, a family might count among its members a retired migrant and also a transmigrant; another household might receive help from family members living in the United States as well as the wages earned in that country by a transmigrant; or any one of the other possible remaining combinations. The distribution of the 869,961 households within the established migratory categories that do or do not receive remittances, the data on the total number of people residing in the households, and the corresponding remittance amounts in pesos and dollars can be seen in table 1.4, which highlights four things:

First, the estimated annual inflow of remittances, US \$2,660 million for 1997 (based on the income sources used and the date of the ENADID-97 survey), is of an order of magnitude similar to other estimates for remittance flows: the 1995 *Estudio Binacional México-Estados Unidos sobre Migración* (Mexico-U.S. Binational Study on Migration) figure of US\$2.5 to 3.9 billion; the 1996 *Consejo Nacional de Población* (National Population Council, CONAPO) figure, based on the *Encuesta Nacional de Ingreso y Gasto de los Hogares* (National Household Income and Expense Survey, ENIGH-96) of US\$2.09

billion (Conapo 1999, 161-89); or the 1997 Bank of Mexico calculation of US\$4.86 billion for family remittances as a part of transfers to the current amount in Mexico's balance of payments (Banco de Mexico, 1999).

Table 1.4 Households, populations, and remittances, by household category, Mexico, 1997

	ALL HOUSEHOLDS							
	HOUSEHOLDS WITHOUT MIGRANTS TO THE UNITED STATES	HOUSEHOLDS WITH MIGRANTS TO THE UNITED STATES					Total for all migrant households	Total for all households
		Migrants returning before 1993	Households with migrants, 1993-1997 (in thousands)					
			Only return migrants	Return and permanent migrants	Only permanent migrants	Total households		
HOUSEHOLDS								
Not remittance-receiving	17,440	1,266	910.1	162.8	449.9	1,522.8	2,789.6	20,230.5
Remittance-receiving	226	131	169.6	105.2	237.0	511.8	643.1	869.9
Total	17,667	1,397	1,079.7	268.0	686.9	22,034.7	3,432.7	21,100.4
POPULATION								
Not remittance-receiving	76,610	5,772	4,429	816.8	1,980.8	7,226.8	12,999.1	89,609.8
Remittance-receiving	837	503	708.6	498.2	1,031.7	2,238.5	2,742.2	3,579.8
Total (in millions)	77,448	6,275	5,137.6	1,315	3,012.5	9,465.3	15,741.3	93,189.6
REMITTANCES								
Monthly total (millions pesos)	276.9	1,756.4	690.9	230.5	382.4	1,304	1,479	1,756
Annual total (millions dollars)	419,514	266,890	1,047*	349.1*	579.2	1,975	2,241	2,660
Remittance-receiving households: monthly average	1,221	1,337	4,075	2,191	1,613	2,547	2,300	2,019

Source: Prepared by the authors based on ENADID-97 records. *Figures in millions of dollars.

Second, the very high number of dollars that flow into Mexico in the form of remittances reveals that a basic and major cause for emigration to the United States is economic, and that Mexicans (or their descendents) working in the country either send money, or bring money in person, to their family members who have remained in Mexico. Third, remittances are important because they represent a part or even all of the financial support for many residents of

Mexico. This is true both in terms of the volume of the population that benefits—around 870,000 households comprising more than 3.5 million members—as well as in terms of the number of pesos that, on average, families receive in the form of remittances (NP\$2,019 per month). That figure is less than the average monthly income for the country as a whole (NP\$3,223, according to ENADID-97), but in 13 Mexican states, the remittance income is greater or the same as the average income, and it also surpasses by more than 30% the average income for rural families nationwide (defined as those people living in population centers of fewer than 2,500 inhabitants).

Fourth and finally, although 73.9% of all remittance-receiving households have migrant members, revealing the close correlation between migration and remittances, 2,789,621 households with migrants do not receive any remittances. Additionally, 226,781 households receive dollars from the United States but do not have migrants among their members.

1.5 Characteristics of households with migrants and/or remittances

To appreciate the general social, demographic, and economic profile of various household groups, we present absolute numbers and percentage distributions that refer to socioeconomic and demographic variables for a new grouping of households (tables 1.5, 1.6, and 1.7) This new grouping was formed based on whether or not a household receives remittances and whether or not the household has experienced international migration (in other words, cross-referencing the two household types shown in table 1.4).

The non-remittance-receiving households fall into two categories: households that do not have any migrants to United States and do not receive remittances from that country (17,440,895), and households with one or more family members who have, at some point, worked or lived in the United States (2,789,621). The households that receive remittances from the United States also fall into two categories: those with no migrants or the migrant(s) returned from the United States for the last time before 1993 (358,104), and those with family members who migrated between 1993 and 1997.

Table 1.5 Nonremittance and remittance-receiving households by region and size of population center, Mexico, 1997

Region	Non-remittance households		Remittance-receiving households			Total for all households
	Without migrants to the United States	With return migrants	Migrants prior to 1992 or without migrants	Migrants between 1993 and 1997		
				Only return migrant	Permanent migrant	
North	3,558,796	695,833	85,109	105,488	42,051	4,487,277
Western Central (traditional)	3,118,020	1,314,268	160,330	47,925	171,789	4,812,332
Center	7,457,067	689,481	101,731	15,577	113,147	8,377,003
Southeast	3,307,012	90,039	10,934	587	15,293	3,423,865
Approximate Total	17.4 Mil	2.8 Mil	358,104	169,577	342,280	21.1 Mil
North	79.3	15.5	1.9	2.4	0.9	100
Western Central (traditional)	64.8	27.3	3.3	1.0	3.6	100
Center	89.0	8.2	1.2	0.2	1.4	100
Southeast	96.6	2.6	0.3	0.0	0.5	100
Total (% by region)	82.7	13.2	1.7	0.8	1.6	100
Population center size (Number of inhabitants)						
up to 2,499	3,816,492	848,580	118,939	34,854	179,987	4,998,852
2,500-99,999	4,568,954	891,966	118,736	35,111	110,369	5,725,136
100,000 or more	9,055,449	1,049,075	120,429	99,612	51,924	10,376,489
Approximate Total	17.4 Mil	2.8 Mil	358,104	169,577	342,280	21.1 Mil
up to 2,499	76.4	17.0	2.4	0.7	3.6	100
2,500-99,999	79.8	15.6	2.1	0.6	1.9	100
100,000 or more	87.3	10.1	1.2	1.0	0.5	100
Total (% by region)	82.7	13.2	1.7	0.8	1.6	100
Population center size for Western Central (traditional) region						
up to 2,499	702,761	494,403	58,835	19,528	95,173	1,370,700
2,500-99,999	899,345	480,306	60,881	20,529	58,692	1,519,753
100,000 or more	1,515,914	339,559	40,614	7,868	17,924	1,921,879
Total (absolute numbers)	3,118,020	1,314,268	160,330	47,925	171,789	4,812,332
up to 2,499	51.3	36.1	4.3	1.4	6.9	100
2,500-99,999	59.2	31.6	4.0	1.4	3.9	100
100,000 or more	78.9	17.7	2.1	0.4	0.9	100
Total (% by region)	64.8	27.3	3.3	1.0	3.6	100

Source: Prepared by the authors based on ENADID-97 records.

This latter category has two subcomponents: households with migrants who returned between 1993 and 1997 (169,577), and households with permanent emigrants (342,280). The resulting five types of households can be broken out geographically, by grouping Mexican states according to the intensity of their international migratory flows as well as by the population centers where they are located (table 1.5). This reveals a concentration of migration (migrants and remittances) in the traditional migrant-emitting region of western central Mexico, where one in three households has members who have migrated to the United States. Although mid-sized and large cities exhibit considerable rates of emigration, the proportions of households enmeshed in migration are even higher in rural areas (in population centers with fewer than 2,500 inhabitants), where almost one-fourth of the families have connections to the United States.

In examining data for just western central Mexico, it can be seen that in rural areas in those states, almost half of the households have sent at least one family member to the United States and/or have received remittances from that country (table 1.5, bottom half). What would happen in this part of the country without the economic benefits of migration? How have values and patterns of traditional behavior changed in these families? These questions are only a few of the innumerable ones that could be posed about the families living in this region of Mexico.

Table 1.6 Sociodemographic characteristics of non-remittance- and remittance-receiving households, Mexico, 1997

Household Characteristics	Non-remittance-receiving households		Remittance-receiving households			TOTAL
	Without migrants to the United States	With return migrants	With migrants prior to 1992 or without migrants	With migrants between 1993 and 1997		
				Only return migrants	Permanent emigrants	
Number	17,440,895	2,789,621	358,104	169,577	342,280	21,100,477
Family Type						
Nuclear	69.1	70.2	48.5	58.2	60.4	68.7
Extended	22.7	23.2	36.3	35.0	33.5	23.3
Single-person	0.5	0.5	0.7	0.6	0.0	0.5
Unrelated residents	7.7	6.1	14.5	6.1	6.1	7.6
Size						
Avg # Members	4.4	4.7	3.8	4.2	4.5	4.4
1 or 2 people	18.1	16.8	38.0	23.3	19.6	18.3
3 or 4 people	39.7	35.1	29.8	37.1	37.5	38.8
more than 5 people	42.3	48.2	32.2	39.6	42.9	42.9
Total (%)	100	100	100	100	100	100
Age of head of household						
Total (%)	100	100	100	100	100	100
0 to 14 years	29.1	30.9	18.3	23.9	37.2	29.3
15 to 44 years	48.2	46.1	30.0	49.4	38.2	47.4
Over 45	22.7	23.0	51.7	26.7	24.6	23.3
Education*						
Adults with one or more years of schooling?						
No	11.0%	11.0%	35.6%	9.7.8%	13.1%	11.4%
Yes	89.0%	89.0%	64.4%	90.2%	86.9%	88.6%
Average years of Schooling	7.6	6.8	5.4	7.6	6.0	7.4
Health						
Health services available?						
No	46.2%	56.3%	50.9%	60.2%	75.3%	48.2%
Yes	53.8%	43.7%	49.1%	39.8%	24.8%	51.8%
Did a family member die between 1992 and 1997?						
No	11.1%	11.3%	15.3%	12.4%	11.2%	11.3%
Yes	88.9%	88.7%	84.7%	87.6%	88.8%	88.7%
Housing-quality index	7.9	7.9	8.1	8.6	7.3	7.9

* for those older than 15 years of age

Source: Prepared by the authors based on ENADID-97 records.

In examining various sociodemographic indicators for the populations within the five household classifications (table 1.6), the following points stand out:

- the largest percentage of extended families are found in remittance-receiving households with migrants (about one-third);¹⁹
- remittance-receiving households without migrants (or with migrants who returned prior to 1993) have fewer family members;
- the older age groups are more heavily represented in the remittance-receiving households with return migrants, and above all, in the remittance-receiving households without migrants; similarly, the profile of the younger age group is associated with remittance-receiving households with members who emigrated permanently between 1993 and 1997;
- the households with remittances and without migrants also tend to have members with less formal education, and with a higher mortality rates;
- the group of remittance-receiving households with members who have recently emigrated permanently to the United States is also characterized by lower educational levels;²⁰
- in all the household groups that are enmeshed in migration (either because they receive remittances and or have had members migrate), one can note lower levels of institutional healthcare coverage, that is, a lower percentage (much lower in the case of those households that receive remittances and have recent emigrants) has access to medical services provided by the IMSS, the ISSSTE, or a state or private company;

¹⁹ The nuclear family consists of the household head and his or her partner; the household head and his or her partner with children; or the household head only with children. The extended family consists of a nuclear family plus relatives; the single-family household consists of just one person; and the nonfamily household consists of people who are not related by kinship to the household head.

²⁰ Regarding the level of education, it should be clarified that both in the average number of years of study as well as in the proportion of adults with one or more years of schooling, the indicated population is 15 years of age or older.

Table 1.7 Labor-force characteristics of non-remittance and remittance-receiving households, Mexico, 1997

Household Characteristics	Non-remittance-receiving households			Remittance-receiving households		TOTAL
	Without migrants to the United States	With return migrants	With migrants prior to 1992 or without migrants	With migrants between 1993 and 1997 Return migrants only	Permanent emigrants	
NUMBER	17.4*	2.8*	358,104	169,577	342,280	21*
Avg number of workers/ household	1.7	1.7	1.1	1.6	1.3	1.6
Household members who work (%)	44.4%	43.7%	30.4%	43.1%	30.7%	43.9%
Return migrants w/ U.S. work documents	-	13.4%	27.1%	52.5%	17.1%	16.5%
Is income received for work performed?						
Total						
No	7.5	10.2	40.2	44.0	39.1	9.2
Yes	92.5	89.8	59.8	56.0	60.9	90.8
Are remittances received from another part of Mexico?						
Total						
No	93.9	94.3	95.7	96.6	97.9	94.1
Yes	6.1	5.7	4.3	3.4	2.1	5.9
Other income?	100	100	100	100	100	100
No	81.0	79.0	88.6	89.2	87.5	81.1
Yes	19.0	21.0	11.4	10.9	12.5	18.9
Average monthly income						
Total income pesos	3,256	2,953	2,760	6,056	2,846	3,223
From work	2,973	2,717	1,342	1,757	985	2,870
From U.S. remittance from Mexican remittance	0	0	1,264	4,075	1,791	83
Other income	55	48	38	45	12	53
Other income	227	188	116	179	59	217

Source: Prepared by the authors based on ENADID-97 records. *In millions of dollars

Finally, the housing-quality index shows that households that receive remittances and have members who migrated between 1993 and 1997 deviate from the average, but they do so in both directions, since the households with

return migrants have a number that is above the average, while households with permanent emigrants are below the average.²¹

For its part, table 1.7 contains numeric indicators for two types of factors found in household economies: the numbers and percentages of its members who are economically active, and the size and source of household income. Even though differences are apparent between households on certain indicators, and there are some patterns for economic ranges and remittances, the remittance-receiving households' absolute dependence on dollars from abroad is what stands out. This is supported by four complementary factors:

- the smaller quantity, in absolute and percentage terms, of working members in remittance-receiving households;
- the high percentage of households receiving remittances from the United States that do not have *any* members residing within the household who are earning income (around four in every 10 households falls into this category);
- the lower percentages of households that have income from other sources, such as “internal remittances” or “other income”;²² and
- the large size of the remittances coming from the United States: in one of the three categories, remittances equal the amount of all other income received, including that obtained by the work of resident family members; in the other two, remittances are more than double the combined income from work of resident family members and any other sources.

²¹ The housing-quality index takes into consideration the existence of a kitchen, the type of flooring and roofing, and the availability of services, such as potable water, sewer connection, and electricity. Its values run from zero to 10, with 10 indicating households that have all the services and are built with the most resistant materials.

²² Internal remittances are supplemental income sent home by family members now residing in other parts of Mexico. Other income is money received from the rental of real estate, bank account interest, *PROCAMPO* assistance, and retirement or pensions obtained from work within Mexico.

1.6 The relationship between international and internal remittances

To obtain some evidence about the relationship, or lack thereof, of Mexican migration to the United States (including remittances sent from that country) with migration within Mexico and with remittances that originate in and are sent to various parts of the country, the households were grouped based on whether or not they had internal migrants among their members (for a change of residence between Mexican states or between municipalities within the same state) and also according to whether or not they received internal remittances. These new household classifications were compared with previously established categorizations, made in terms of whether a household had international migrants and received remittances from abroad. This comparison is seen in a summarized form in table 1.8. The data is complemented by an examination of the percentage distributions for households, based upon whether or not they receive internal remittances, which were included in table 1.7.

Table 1.8 Labor-force characteristics of non-remittance and remittance-receiving households from internal migration, Mexico, 1997

Household Characteristics	Non-remittance households		Remittance-receiving households			TOTAL
	Without migrants to the United States	With return migrants	With migrants prior to 1992 or without migrants	With migrants between 1993 and 1997		
Number	17,440,895	2,789,621	358,104	169,577	342,280	21,100,477
Permanent intra-Mexico emigrants?						
No	38.3%	46.8%	46.7%	47.7%	58.4%	40.0%
Yes	61.7%	53.2%	53.3%	52.3%	41.6%	60.0%
Permanent intra-Mexico emigrants prior to 1993?						
No	51.6%	56.4%	54.9%	54.9%	66.9%	52.5%
Yes	48.4%	43.7%	45.1%	45.1%	33.2%	47.5%
Permanent intra-Mexico emigrants 1993-1997?						
No	81.3%	80.2%	86.1%	83.1%	87.7%	81.4%
Yes	18.7%	19.8%	13.9%	16.9%	12.3%	18.6%
Without permanent intra-Mexico emigrants						
Household does not receive remittances from within Mexico	94.3%	95.4%	96.9%	97.3%	99.1%	94.6%
Household receives remittances from within Mexico	5.7%	4.6%	3.1%	2.7%	0.9%	5.4%
With permanent intra-Mexico emigrants						
Household does not receive remittances from within Mexico	93.7%	93.3%	94.7%	95.9%	96.2%	93.7%
Household receives remittances from within Mexico	6.3%	6.7%	5.3%	4.1%	3.8%	6.3%

Source: Prepared by the authors based on ENADID-97 records.

A review of these indicators makes it possible to establish some tentative points about the relation of this spatial mobility of both people and monetary resources:

- The percentage of households that received remittances from both the United States and from within Mexico are low, and notably less than the percentages for the rest of the domestic units.
- Although with variations that require more precise indicators to be correctly interpreted, the percentages of households that have internal migrants turns out to be higher in households that do not have international migrants (either return migrants or permanent emigrants to the United States) among their members. This leads us to suppose that the people who migrate internally (implying a permanent change of residence) generally use different path than those followed by migrants who move in order to work or to reside in the United States.

The two foregoing observations seem to indicate a relative independence of internal and international migrations. This independence, although it may not be verifiable in certain areas, such as the northern border cities, increases the quantitative importance of the migratory movements (regardless of the destination) when examining Mexican households. There is a minimal possibility of the coexistence of both types of migrants in the same family, and consequently, when one analyzes migration flows, it diminishes the number of households that do not experience migration at all. With the data and the concepts in the ENADID-97, for example, we see that of 21,100,477 Mexican households at the end of 1997, only 6,682,447 (or 31.7% of the total) did not have any permanent internal migrants (between municipalities or states) or any international migrants (and/or they did not receive remittances from abroad).

1.7 Conclusions

The information and the indicators obtained through this research bring to light four aspects regarding Mexican immigration to the United States and the dollar remittances that enter Mexico from that country.

First, migration and remittances are a widespread aspect of life in Mexico: one in every five Mexican households is “enmeshed” in it. That proportion is even higher in certain areas, like rural localities in the nine states that make up western central Mexico. There, one in every two households has a connection with the United States through the receipt of dollars and because at least one, or even several, family members have lived or worked (or are working) in that country or because a family member has left to live there permanently.

Second, the migratory phenomenon is complex and does not constitute an isolated or ephemeral event in the lives of families. Consequently, households often experience distinct modalities of migration and migrations at different points in time over a period of many years of participation in the migratory circuits to the United States.

Third, the relationship between migration and remittances is highlighted by remittance flows, which for the most part can be divided schematically into two groups (which are not necessarily exclusive): One consists of remittances sent by a household member—usually the household head—who goes to the United States either to work there temporarily or to live there for a longer period. The other is made up of dollars that are sent to Mexico by former members of the household, such as children or other relatives, who have been living in the United States for many years.

Finally, these two categories of sending money—in addition to indicating the ongoing relationship that families have with relatives in the United States, across various stages of their reproductive cycles—equate to two categories of remittance-receiving households or two periods in the life of families that experience migration. One category corresponds to the first type of remittance. It is characterized by domestic units at the beginning of their cycle of family development. This is the time when the children are young; when the head of household is old enough to undertake a trip and confront the adverse conditions that are faced in finding and keeping a job in the United States; when the mother is able to take charge of daily tasks including obtaining resources if the remittance money doesn't arrive; and when the process of

accumulating goods of all kinds has just begun. The other category, associated with the second group of remittances, comprises households at the other extreme of their life cycle: when all or almost all the children have left to form their own families; when the original couple is now in their 50s or 60s; when frequently, only one of the parents survives (generally the mother); when, due to age, it is difficult for the head of household to do remunerated work; and when the contact with the United States is through the residence in that country of some former member of the household, such as a child or a near relative.

These findings should be kept closely in mind when developing policies to channel remittances to productive ends. The existence of a pair of categories of remittance-receiving families, which seems to include the majority of those households that receive dollars, has repercussions for the use of remittances. In either case, the necessity to satisfy immediate and (in the face of the absence of other resources) basic needs—for food, clothing, housing, and other services, such as education and health—impedes the productive investment of these dollars. Consequently, there is reason to moderate the optimism that exists with respect to the use of remittances for investment purposes.

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CHAPTER 2: INTERNATIONAL MIGRATION AND MEXICAN HOUSEHOLDS

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2.1 Introduction

While the attention to globalization has mostly focused on the mobility of goods and services as well as financial capital, the mobility of labor has not received nearly the same attention. Some of this relative neglect may be due to the lack of empirical data. This is particularly true in Latin America where most of the labor migrants are headed to the United States which in turn is the source of migrant remittances. International migration from Mexico to the United States has been studied in some detail with most studies largely concerned with the microeconomic agents, i.e. migrant workers and their families, while other studies deal with the economy as a whole. There is also continued debate about the annual flow and the stock of migrants in the U.S.; in particular undocumented migrants. (Durand and Massey: 1992, Passel: 1994) as well as the remittances migrants sent to their country of origin.

Policy makers at multilateral organizations as well as governments in the region confronting globalization ask whether these human and financial capital flows reduce poverty and inequality and whether they foster growth and economic development at all. Consequently, there is a need for empirical studies that can shed some light on our understanding of the relative share of these flows in total household income, in federal and state budgets and whether household receiving remittances have consumption and savings patterns consistent with the promotion of higher investment opportunities. A related question is whether remittance-receiving households are engaged in “conspicuous consumption” leading only to a demonstration effect thus hindering the use of these funds for productive activities. This chapter will address these questions using empirical data from the national Mexican Income and Expenditure survey¹.

¹ Due to the lack of panel data for the Income and Expenditure survey, this chapter uses the original 1989 dataset as in the previous edition of this book.

2.2 Remittances, Migrants and their socio-demographic characteristics

The Durand and Massey (1992) survey article on Mexican migration to the United States (U.S.) claims that there remains two hotly debated topics in this area: first, the number of Mexican migrants to the U.S.; and second, the volume of monetary remittances. The number of migrants to the United States has varied considerably throughout its more than a hundred year history and the debate over the number of migrants date back to the 1930s. 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. Gamio used postal money orders originating in the United States destined for Mexico, assuming they were all sent by Mexican migrants to their families (Lozano:1993). The pattern of decline in remittances during the winter months led Gamio to believe that Mexican migration was essentially a temporary or seasonal phenomenon. Taylor (1929), who examined national U.S. census figures, school statistics, and marriage registrations, had concluded that Mexican migration was permanent because he attributed the decline of remittances during the winter months to a lack of work rather than to return migration.

Because of the massive deportations of Mexicans during the Great Depression years, the debate on Mexican migration in the 1940s focused mostly on estimating the number of deportees. Estimates of the number of Mexican deportees ranged from 300,000 to 500,000 deportees (Durand and Massey: 1992). During the early 1940s, the Bracero Program² was instituted and since the number of “bracero” applicants exceeded the number of permits extended, many Mexican laborers started heading north on their own, mostly undocumented. Thus, in addition to the flow of documented migrants from the Bracero Program, an additional flow of mostly undocumented migrants became a significant part of the total flow of migrants heading to the United States. The Immigration and Naturalization Service (INS) apprehended and deported

² The Bracero Program was a temporary worker program initiated by the U.S. government in 1942 due to wartime labor supply constraints. Although, it was created as a temporary program, it was continually extended until its official termination in 1964.

nearly 5 million undocumented Mexican migrants during the *Bracero* years. After the end of the Bracero Program in 1964, the increased flows of undocumented workers that came in addition to the official flows became the concern of politicians and academics. (Durand: 1994).

The disagreement over estimates of undocumented migrants centers on the validity of inferences drawn from the number of apprehended migrants and the subsequent extrapolation to estimate the annual flows of Mexican migrants to the United States³. Passel's (1986) review of this literature divides the studies between those that are analytical and those that are speculative. The former, done by demographers, estimate the stock of migrants to be in the range of 1.5 to 2.5 million in 1980 (Bean et al: 1983). Passel and Woodrow (1987) estimate the flow of migrants at 200,000 per year during the early 1980s. Speculative estimates quoted in the press and those made by some private organizations estimate the stock of migrants at 5.2 to 7 million and the flow of migrants at 500,000 to 600,000 per year (Durand and Massey: 1992). According to Durand and Massey, these latter estimates are based on little more than opinion and conjecture. A more recent study by the Pew Hispanic Center using the 2005 Current Population Survey estimates that as of March 2005, the Mexican undocumented population in the United States includes more than 6 million migrants and unlike previous flows, the recent migrants are heading to states with little foreign population. One sixth of these new flows are under the age of 18.⁴

The first attempt by the Mexican federal government to look systematically at the migration and remittance phenomenon at the national level from the household side dates from a national survey conducted in 1978 in order to estimate remittances and migration at the national level. This survey, known as the ENEFNEU Survey (*Encuesta Nacional de Migracion a la*

³ Since most Mexican migration is believed to be circular (it involves several return trips), the same migrant worker may be apprehended several times. INS calculations are based on the assumption that for one migrant apprehended, two are successful.

⁴ "Estimates of the Size and Characteristics of the Undocumented Population" by Jeffrey Passel, Pew Hispanic Center report, March 2005, Washington D.C.

Frontera Norte y a los Estados Unidos), was carried out by the National Center for Labor Statistics and Information (CENEIT). It consisted of a questionnaire applied to a stratified probability sample of 62,500 households in 115 localities throughout Mexico and a sample of deportees sent back to Mexico by the US Immigration and Naturalization Service (INS). Unfortunately, this latter sample is not representative of the universe of undocumented workers.

Despite its shortcomings, this survey showed that the main use of remittance is current consumption, which in this survey includes food, rent, clothing, etc. (table 2.1). The survey also indicates that the money directed to the investment category came from migrants who sent between 500 and 1 000 dollars and from those sending above 1,000 dollars. The total flow of remittances to Mexico estimated from this survey is between US\$ 1.1 and 1.3 billion for the 1978/79 period.

**Table 2.1 Main uses of remittances
by households receiving remittances, 1978**

Category of expenditure	Percentage of households¹
Current consumption (food, rent, clothing)	70.36 %
Durable goods	8.80 %
Housing (new or improvements)	8.57 %
Debt repayment	8.20 %
Investment (purchase of capital goods, businesses, land purchases)	7.34 %
Unknown	3.28 %

¹ This is the percentage of households who reported a particular category of expenditure as their primary use of remittances. Because some households reported two main uses, these percentages do not add up to 100%.

Source: Zazueta, C. and Garcia y Griego (1982)

Despite their shortcomings, Mexican data sources have an advantage over U.S. sources because they provide a rich set of detailed information on

migrant socioeconomic characteristics. Apart from deportee surveys⁵ and the ENEFNEU survey, there had been no attempt at the national level in Mexico to directly estimate the flow of migrant workers to the United States until 1993. A noteworthy but relatively unknown study is The *Encuesta sobre Migración en la Frontera Norte de México* (EMIF) conducted since March of 1993, which is a more recent attempt to gather data at the national level to shed some light on the complexities of Mexico-U.S. migration.

This recent survey in Mexico is divided into four distinct populations. One group is composed of those migrants who were apprehended at the border during their trip to the United States and consequently were deported back to Mexico. A second group is composed of those migrants who came to the border cities from other regions of Mexico but intend to seek work in the Mexican northern border cities. The third group is composed of the flow of migrant workers who came to the border cities from other regions of Mexico to seek work in the United States. The last group is composed of those migrant workers who were in the United States prior to the survey and are returning home during the survey period. At the request of the Mexican Labor Ministry and the Mexican National Population Council, *El Colegio de la Frontera Norte* is carrying out a monthly survey of migrant flows to the United States throughout the eighteen most important entry points along the U.S. Mexican border.⁶

Thus, this survey provides a comprehensive look at the flows of migrants through the border towns but it could double-count migrants since it really counts “events” and not individuals. It also omits an accounting of the flow of documented migrants who use the air transportation system to reach the United States. Nevertheless, the estimate of remittances obtained from the

⁵ Among the deportees surveys in Mexico are the Canon Zapata Project and the Deportee Survey in the *Encuesta Nacional de Emigración a la Frontera Norte y a Estados Unidos*. For deportee statistics on the U.S. side see INS annual reports for selected years.

⁶ For the methodology see *Encuesta sobre Migración en la Frontera Norte. Síntesis Ejecutiva* by J. Bustamante, R. Corona and J. Santibanez.

EMIF survey is around two billion US dollars for the period between March 1993 and February 1994 and this is consistent with other estimation sources.

The main contribution of this study to the Mexico-U.S. migration literature is to shed some light on the relationship between the size of remittances and the socio-demographic characteristics of migrants, and in particular the type of migration involved. The type of migration (temporal, recurrent or permanent) affects the variability of remittance flows and has different impacts of Mexican households. Some community studies have shown that the type of migration determines the uses of remittances where temporary migration is associated with current consumption and housing expenditures out of remittances and permanent migration with investment-type expenditures (Verduzco:1995). The following table groups temporary and permanent migrants and their average earnings and monthly remittances.

Table 2.2 Total Flow of Remittances into Mexico by Type of Migrant, 1993/94
(total amounts in thousands U.S. \$)

	<u>Temporary Migrants</u>	<u>Permanent Migrants</u>
Monthly Earnings	\$285,297 or \$851/migrant	\$190,336 or \$1,218/migrant
Monthly Remittances	158,824 or \$474/migrant	48,754 or \$312/migrant
Yearly Remittances	\$1,470,110 or \$4,385/migrant*	\$ 585,045 or \$3,745/migrant
Total (both groups)	\$2,055,155	

Source: Derived from data in Corona (1994). Based on the average number of months worked in the U.S. (9.25 months).

Table 2.2 shows that permanent migrants, even though residing permanently in the United States, continue to send remittances. This group of permanent migrants did send a smaller gross amount than the temporary migrants but remittances from permanent migrants represent about 28 percent of the total flow. The permanent migrant group sent 25.6 percent of their earnings while the temporary migrants sent 55.6 percent of their earnings.

Permanent migrants earn more while in the U.S., possibly due to their experience and longer assimilation into the U.S. labor market, but they sent about the same per migrant as the temporary group. It is suggested in the literature that as migrants become assimilated into the U.S. labor market and move permanently with their families, they send less remittances, but it would be a serious mistake to ignore remittances sent by permanent migrants.

In spite of this recent attempt to quantify migration and remittances to Mexico, the EMIF survey is based on the perspective of the migrant or the sender of remittances not the receiver. There may be differences between the responses of those who send remittances and those who receive them. The former group may intend remittances to be used for a certain category of expenditures but the members of the household in Mexico may be spending the money differently.

Regardless of the type of survey carried out, there is another distinct characteristic of Mexican emigration that has some implications for the impact of remittances on Mexican households. One such characteristic is the geographical distribution of the households with at least one migrant in the U.S. The impact of remittances would be concentrated in certain regions if migration were not widely dispersed in Mexico. This could accentuate regional disparities or narrow them depending on the geographical distribution of Mexican households participating in these flows. The geographical distribution of migrants may also vary across time with some states gaining in relative importance at the same time that other states are losing their relative participation. The geographical distribution in the country of origin of those households with migrants in the U.S. is illustrated in Table 2.3.

Table 2.3 Distribution of Mexican Migrants to the United States by Top Eight States of Origin in Mexico for selected years (in percentages)

	1924*	1957*	1977*	1984*	1993-94** (%)
Total, top 8 states	79.2	74.3	71.0	68.7	67.8
Baja California	-	-	17.0	10.2	0.6
Coahuila	9.2	5.5	--	--	6.3
Chihuahua	--	6.9	7.7	15.7	5.2
Durango	5.8	8.6	3.9	--	5.7
Guanajuato	10.8	13.2	9.0	7.7	17.9
Guerrero***	--	--	--	4.4	3.5
Jalisco	20.0	10.8	13.7	10.0	6.9
Michoacán	14.5	11.8	11.5	11.1	10.9
Nuevo Leon	5.8	--	--	--	3.3
San Luis Potosi	--	5.6	3.7	--	7.4
Sonora	4.1	--	--	5.2	1.1
Zacatecas	9.0	11.9	4.5	4.4	4.5
Distrito Federal	--	--	--	--	7.5

Sources: Cornelius and Bustamante (1989) and *Encuesta sobre Migracion en la Frontera Norte* (1994).

* Estimates of migrants based on data from deportees samples.

** Estimated by the author based on those who returned to Mexico voluntarily.

*** Guerrero and Morelia are combined.

As can be seen from Table 2.3, the top eight labor sending states have been losing some share of the total flow of migrants since 1977 but they still account for over two-thirds of it. The traditional sending states in the northwestern part of Mexico such as Zacatecas, Durango, and Jalisco seem to have lost some representation in these flows as new states such as Nuevo Leon, Coahuila and especially the Distrito Federal are incorporated into the migration flow. The northern border states account for 25.1 percent of the flow of migrants to the U.S. Four states, Guanajuato, Jalisco, Michoacan and Zacatecas have been consistently among the top sending states in terms of their contribution of migrants to the total flow from the 1920s until today. The importance of remittance flows for the different regions in Mexico is shown in Table 2.4.

**Table 2.4. Remittances and government expenditures by key states, 1996
(in millions of dollars)**

State	Remittances	Government Expenditures		
		Education	Health	XXVI
Guanajuato	652.3	312.1	190.9	45.8
Jalisco	523.9	438.6	389.4	43.0
Michoacan	360.1	389.7	152.5	71.2
San Luis Potosi	283.7	267.1	115.3	46.6
Guerrero	211.9	406.1	121.4	11.8
Chihuahua	186.4	259.2	216.0	43.7
Zacatecas	179.6	174.8	65.9	40.7

Category XXVI represents government expenditures in social programs such as poverty abatement.

Source: Own calculations based on Banco de Mexico, Conteo de Poblacion y Vivienda, 1995 and President's report for 1998.

Remittances are very important for those states that send migrants to the United States. These traditionally migrant sending states receive significantly higher amounts by way of remittances than from federal expenditures, sometimes fourteen times the level of federal social spending, as in the case of Guanajuato. For other states that are not shown here such as Oaxaca, Puebla, Hidalgo, the pattern is more or less the same. Even though these latter states receive fewer remittances in absolute terms, in relative terms they represent more than one hundred percent of federal outlays in these states.

Another detailed view of the geographical dispersion is offered by an analysis of Mexico's 2,428 municipalities that are grouped into 32 states. Verduzco and Unger's (1998) study of these municipalities finds quite a remarkably high percentage of the economically active population with some degree of "migratory activity".⁷ These municipalities come mostly from the states described in the table above. The following table shows the dispersion

⁷ "Migratory activity" is estimated using the National Survey on Population Dynamics (ENADID) from the number of persons who participated in the migration process and returned to the households of those interviewed between 1987 and 1992. "Low migratory activity" refers to 0.1 to 6.9 percent of the Economically Active Population (EAP), "medium" is from 7 to 24.9 percent and "high" is from 25 to 100 percent.

of migration at the municipality level in Mexico in percentage terms based on the National Survey of Demographics Dynamics.

Table 2.5 Migratory Activity in Mexican Municipalities by Regions (% of EAP* who have migrated to the US in the last five years)

Category	% of EAP	Border	North	West	Center	Southeast	Country
No migratory activity	0	10.2	5.5	2.5	39.7	66.5	38.0
Low migratory activity	0.1 – 1%	11.3	8.2	1.9	33.8	13.8	18.3
Medium migratory activity	1.1 – 6.9%	49.4	39.0	19.0	18.0	14.2	22.0
Medium-high migratory activity	7 – 24.9%	26.7	28.5	59.4	7.2	4.5	16.9
High migratory activity	>= 25.0%	2.2	18.7	17.0	1.1	0.8	4.5

* Economically active population

Source: National Survey of Demographic Dynamics (ENADID), 1987-1992

It can be seen in Table 2.5 that only 38 percent of the economically active population have no international migratory experience in the 1987-92 period. In the Western states that have traditionally sent three quarters of the migrants, only 2.5 percent did not participate in the process of international migration. One may conclude that entire towns cannot leave for the United States but almost all households have at least one person who at some point in his life has been in the United States looking for work. Thus, as the impact of remittances becomes more widespread among small localities in the west, and northern regions, it becomes more difficult to pinpoint the effects because the effects are diffused among different households at different points in time. These trends also suggest that the effects of remittances depend on the years of exposure to the migration phenomenon, since the northern regions in Mexico are the oldest in terms of participation in the migration process. Verduzco and Unger (1998) have suggested that it is necessary to look at the years that a community has been participating in the migration process to

examine the impact of remittances. Families with more years of exposure to the migration circuits tend to spend remittances in investment-type expenditures because of accumulated savings. But we must be cautious before drawing any conclusions. Table 2.5 also shows that only 4.5 percent of the Mexico's EAP has "high migratory activity" and of these municipalities 80 percent are in municipalities with populations of less than 20,000 inhabitants. Furthermore, half of them are found in only three states: Jalisco, Michoacan and Zacatecas, the traditional migration states in Mexico.

There is also evidence that the origin of migrants is changing from predominantly rural areas to urban areas.⁸ The EMIF survey shows that 56 percent of emigrants now come from urban areas while 42.1 percent come from rural areas, perhaps reflecting the economic crisis that has affected Mexican urban areas in the 1980s. A case in point is Mexico's Federal District, which although late participants in the emigration process, now occupies third place among sending regions in recent years. Evidence from the Cañon Zapata survey (1987-96) also indicates that there is a greater dispersion in the origin of Mexican migrants who are not only coming in increasing numbers from the capital city but also from the Border States and from the states of Oaxaca and Guerrero.

We can conclude that in spite of more urban cities joining the migration circuits and recent newcomers like the state of Oaxaca, the flows of migration from Mexico to the United States still comes from very specific regions in the Central, Western and Northern regions of Mexico. Within these regions, there are some small rural areas that send a large percentage of their population abroad. As Verduzco and Unger (1998) conclude,

"on the one hand, [there is] a dispersion of the phenomenon in general terms in the country, particularly from the central states towards the northern and border states, but on the other, we can see a strong

⁸ Mexican surveys consider an urban area to be a locality with 15,000 or more inhabitants while a rural area is a locality with a population lower than 15,000 inhabitants (INEGI:1989). 1.9% of those surveyed did not specify where they came from.

concentration of the municipalities with highest intensity of migration in a few states, mainly in the west.”

There is another significant characteristic of Mexican migration that mediates the macroeconomic impact of remittances. Most of the emigrants held a job before departing for the United States: only 27.5 percent of them did not have a job in Mexico prior to emigrating (EMIF, 1995). This seems to corroborate the belief that international migration no longer serves as a safety valve for Mexican unemployment. As Durand (1994) puts it, “By the end of the 1980s, the metaphor [safety valve] has definitively lost support ...”

Equally important is the notion of the circularity of Mexican labor migration. The EMIF survey provides evidence in support of the thesis that Mexico-U.S. migration is mostly a circular process. This is a unique feature of migration between these two countries due partly to their geographical proximity. Mexican migrants make several trips of different time lengths during their lifetime, continually alternating their stay and work in the United States but keeping their main residence in Mexico. Evidence from the EMIF survey shows that about 73 percent of emigrants surveyed had already traveled to the United States seeking work at least once and about half of the total flow of migrants had been in the United States three or more times. The implication is that the flows of remittances to Mexico are unlikely to decrease if most of the flow is composed of recurrent migrants. The circularity of Mexican migration suggests that for the whole country remittances are unlikely to decrease in the future. The impacts of remittances on households however are harder to unravel because they depend on whether remittances are treated as an additional continuing source of income or a one-time increase in income. This matters in determining the type of expenditure out of remittances by households receiving such inflows.

2.3 The Mexican Household Income and Expenditures Survey (ENIGH89)

A previously unexplored data set for remittances is the 1989 National Household Income and Expenditures Survey (ENIGH89). This is the only

systematic data collected at the household level to allow any inferences about remittance and consumption patterns in Mexican households at the national level. ENIGH surveys have been carried out with a consistent methodology since 1989.⁹ The ENIGH database has been overlooked even though it contains a very detailed disaggregation of income sources. One such source is the category “gifts and donations from foreign sources”. We can use this category as a proxy for remittances from migration to the United States since ninety-nine percent of migration abroad has the United States as the destination country. This allows us to identify the households that receive remittances and those that do not. The ENIGH survey is also representative of the urban and rural sectors if one accepts the categorization of the urban sector as the high population density area and the rural sector as the low population density sector. The low population density sector refers to towns of less than 2,500 inhabitants while the high-density sector refers to those towns with populations larger than 2,500.

Based on the assumptions made about the definition of remittances and the categorization of the urban and rural sectors, we will use a control group (the population of households who do not receive remittances) to compare their consumption and savings patterns with those of the households who do receive remittances. This comparison will shed some light on the impact of remittances on consumption and savings in Mexican rural and urban households.

The 1989 ENIGH shows that most of the remittances sent to Mexico are directed to the low population density areas (Table 2.6). Our totals for the 32 states correspond with the total number of households receiving remittances in the 1989 annual report published by the National Institute for Statistics and Geographical Information (INEGI)¹⁰.

⁹ There are other income and expenditure surveys for years prior to 1989, such as the 1984 and 1975 surveys, but the methodology used in these earlier surveys is somewhat different. Since 1992, the National Statistical and Geographical Information Institute (INEGI) has conducted these surveys every two years.

¹⁰ INEGI is the government agency in charge of conducting the National Income and Expenditure Surveys.

Table 2.6 Total Remittances and Number of Households Receiving Foreign Remittances by Low and High-density Sectors and by States, 1989 (in millions of pesos)

Mexican States	Total		Remittances from foreign sources			
	Number of Households receiving remittances	Remittances (Millions of pesos)	High population density		Low population density	
			Number of Households	Remittances (Millions of pesos)	Number of Households	Remittances (Millions of pesos)
States with high migration	366,637	297,584	182,311	111,588	184,326	185,996
All other states	282,249	332,680	109,208	161,276	173,041	171,404
Total (32 states)	648,886	630,264	291,519	272,864	357,367	357,400

Source: Author's calculations based on the 1989 National Income and Expenditure Survey.

The division by the nine states into those with high migration and the rest is for illustrative purposes since this is only representative at the national level and for urban and rural areas. The purpose here is to show the nine states with the greatest migration intensity¹¹. These nine states account for 56.5 percent of the households who receive remittances and 47.2 percent of the total amount remitted. In the smaller towns, these states account for 51.6 percent of the households and 52 percent of the amount received. The total amount of income from foreign sources was 630, 264 million pesos in 1989. To see the evolution of these flows in Mexican households we provide a similar table for the 1992-96 period (Table 2.7).

¹¹ Several studies have pointed out that migration in Mexico originates mostly in 8 to 10 states. We take the most recent list of states with high migration from the US-Mexico Binational Migration Commission report.

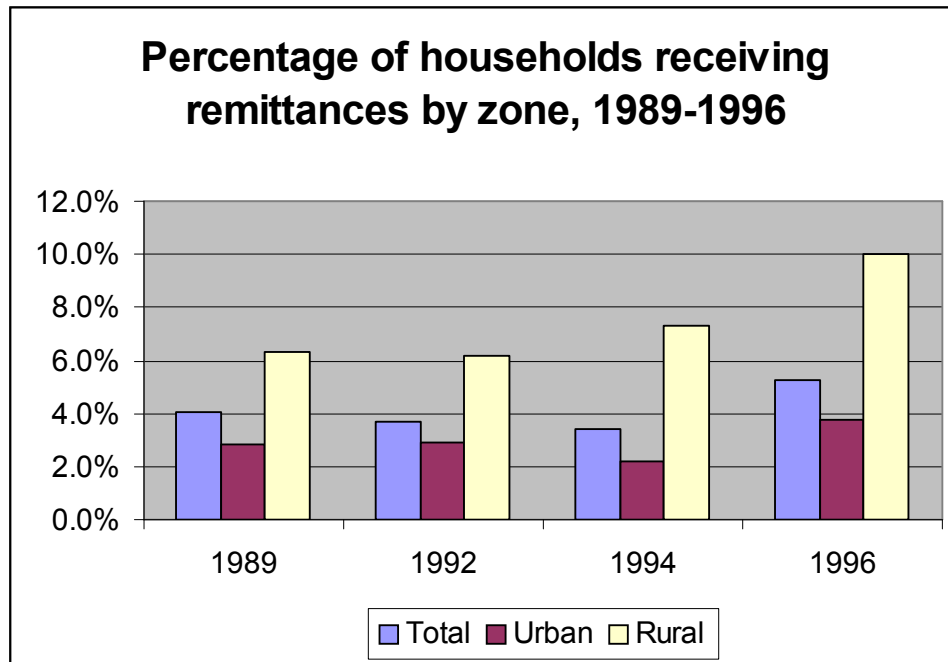
Table 2.7 Total Number of Households Receiving Foreign Remittances by Low and High-Density Sectors and by States, 1992-96 (in thousands US\$)

Year	Total		Remittances from foreign sources			
	Number of Households receiving remittances	Remittances (thousands US\$)	High population density		Low population density	
			# of Household	Remittances (thousands US\$)	# of Households	Remittance (thousands US\$)
1992	659,673	1,393,736	389,109	903,958.6	270,564	489,777.3
1994	665,259	1,443,734	319,746	778,127.5	345,513	665,606.8
1996	1,076,207	2,089,953	584,293	1,311,717.3	491,914	778,235

Source: Author's calculations.

It should be noted that while the number of households receiving remittances increased moderately between 1989 and 1994, there was a sharp increase from 1994 to 1996. While the absolute number of households receiving remittances increased by less than three percent between 1989 and 1994, they increased by almost two-thirds in 1996. In relative terms, the percentage of Mexican households receiving remittances has clearly increased in 1996, especially in the low-density areas (rural zone). By 1996, 3.8 percent of households living in urban zones received remittances while 10 percent of households living in rural zones received remittances. Remittances, however, decreased slightly as a percentage of total current income between 1989 and 1994 and then increased from 3.4 percent of total current income to 5.3 percent in 1996. This may be an indication of the severity of the 1995 Mexican crisis when the peso was devalued by 50 percent in December of 1994. This pattern of remittances in rural and urban zones is illustrated in Figure 1.

Figure 1



The research literature based on several Mexican community studies indicates that U.S. earnings are mostly spent on current personal consumption and very little on productive investment.¹² Despite this evidence, there is also evidence to support the opposite view. Several studies claim that there is some productive investment and local economic growth in some communities.¹³ But the main problem for both sides of the debate is the degree of generalization that can be drawn from such community studies. Recent studies have shown that a look at the direct use of remittances ignores the indirect effects that consumer spending has on output, income and employment throughout the Mexican economy, even when some increased demand is satisfied through imports. (Taylor and Adelman: 1996).

¹² Durand, J, D. Massey and E. Parrado (1995) provide an extensive list of such studies; among them, Dinerman: 1982, Gonzalez and Escobar:1990, Lopez:1986, Shadow:1979, Reichert:1981, Stuart and Kearney:1981, Mines: 1984, Fernandez:1988 and Weist:1973, 1979, 1984.

¹³ Durand, J and D. Massey (1992) mentioned the following: Trigueros and Rodriguez (1988), Massey et al. (1987), Goldring (1990).

The available community studies do shed some light on some of the reasons why productive investment is undertaken. Some smaller communities may be geographically better positioned than others to take advantage of larger adjacent markets, while others may have better infrastructure or more suitable agricultural land and, therefore, productive investment is more likely to occur. For example in Altamira and Guadalajara, it appears that a well-developed and dynamic local economy encourages the repatriation of migrant earnings (Massey and Basem: 1992). In El Bajio, Guanajuato, where there is abundant fertile soil, the intensive agriculture sector attracts remittances from migrant workers. These community studies rely primarily on household expenditure surveys to determine the direct uses of remittances.

Any study of the uses of remittances must rely on very different sources of data. For example, the relevant question about remittances in the Survey of Migration to the Northern Border (EMIF) was designed to obtain qualitative data from the migrant himself about the main use of remittances by the recipient household in Mexico. The results of the EMIF data therefore only show the ranking of importance from among seven categories. The seven most important categories are: to buy land and agricultural equipment; to start, expand or buy a business; to buy or improve your house; to buy a car or durable goods; to pay debts and to meet current consumption needs. For the purposes of this study, we use a more general approach by looking at the total amount received by households and then compare the consumption patterns of households with migrants with those that do not have migrants abroad. This is an indirect way to study the effects of these flows on the consumption patterns of the receiving households but it is justified due to the fungibility of remittance flows.

It has been shown that most remittance-receiving households spent their money mostly on consumption. A similar pattern is observed in other developing countries. It is important to note that it is extremely difficult to distinguish expenditures out of remittances and those that are not. We believe that it is more useful to examine the consumption effects on remittances by comparing them with a control group. Based on the ENIGH survey, we divided

the universe of households into those households that received remittances and those that did not. We then proceed to analyze whether their patterns of consumption are significantly different. We classified spending categories into three broad categories: consumption (food, clothing, household maintenance items, etc.), consumption-type investment (health and education expenditures), and productive investment in agricultural and non-agricultural activities (purchase of inputs, machinery, tools, etc.). First, we present the results of the aggregate categories and then we proceed to test whether the average expenditure in each category is significantly different for the two groups.

None of the studies in Mexico about remittances have used a control group, which is a comparison of households receiving remittances with those that do not. The description often found in the literature of the so-called “demonstration effect” has no empirical evidence. It is often believed that households receiving remittances are somewhat different with respect to their consumption and savings behavior. We provide evidence in this section of the pattern of consumption of remittance-receiving households (RRH) and non-remittance receiving (non-RRH) households (Table 2.8).

On the one hand, the RRH group clearly has a lower average of expenditures per household in all categories in the high-density areas. This pattern is reversed in the low-density areas where the RRH tend to have higher expenditures per household receiving remittances. In the low-density areas, the RRH group has a higher average household expenditure except for the health, transportation and savings categories. On the other hand, the purchase of vehicles and investment in housing seem to be relatively higher for the RRH compared to the non-RRH group in the rural areas. This is consistent with most remittance expenditure surveys. In addition, it is quite significant that the expenditures per household on equipment and machinery are also higher for the RRH group in the rural areas, which indicates that these migrant families are investing in productive activities. One can argue based from this evidence that remittances allow these households to overcome liquidity constraints to invest in productivity enhancing activities, including by incurring

more debt. The table shows that the debt category for the RRH group is also higher than for the non-RRH group.

Table 2.8 Distribution of Current Monetary Expenditures by Spending Category for Remittance-receiving and Non-remittance Receiving Households

Expenditure category	Households without remittances				Households with remittances			
	High population density		Low population density		High population density		Low population density	
	Per capita	Total	Per capita	Total	Per capita	Total	Per capita	Total
Total expenditures	3,837	38,355,079	1,820	9,665,182	2,905	847,185	1,987	711,220
Current expenditures	2,880	28,773,068	1,356	7,187,781	2,115	616,518	1,496	534,835
Food and Beverages	1,116	10,992,781	639	3,281,070	994	281,852	610	210,575
Clothing and accessories	253	2,201,484	145	621,661	202	44,847	166	49,083
Housing and utilities	212	2,062,069	72	363,472	172	49,144	79	27,523
Furniture, appliances and house maintenance	273	2,697,595	139	730,322	211	59,139	176	62,303
Health care (*)	144	919,045	106	354,292	95	21,760	101	26,862
Transportation & Communication	442	3,917,250	151	717,867	307	70,560	134	52,492
Transportation	402	3,450,457	143	670,527	265	55,087	140	47,219
Public	151	960,822	117	275,837	158	20,543	89	13,779
Special services	84	255,976	41	90,504	57	8,313	58	9,474
Purchase of private Vehicles	3,762	948,961	164	111,757	8,194	9,786	813	14,691
Vehicle maintenance	413	1,284,698	365	192,429	371	16,445	156	9,275
Communication	115	466,793	54	47,340	112	15,473	32	5,273
Education and recreation *	423	3,306,299	154	495,236	205	42,324	118	23,871
Other goods and services	273	2,676,545	122	623,862	176	46,892	232	82,125
Total non-monetary Expenditures	563	2,982,945	369	1,458,782	585	106,736	392	98,920
Investment expenditures								
Housing purchases	3,458	400,889	1,219	43,526	834	2,264	4,320	11,328
Equipment purchases	866	64,549	714	63,597	78	772	1,211	8,537
Debt payments	469	236,979	324	102,818	231	2,618	492	14,481
Savings	1,056	1,797,180	845	342,781	325	14,970	718	31,133
Inputed value of home Ownership	859	6,599,065	202	1,018,619	488	123,931	220	77,466

(*) These categories are considered investment-type expenditures.
Author's calculations based on ENIGH 1989.

2.4 Empirical Analysis

In many rural areas in Mexico, consumption patterns change significantly as migrant households receive increased income in the form of remittances. An analysis of the impact of remittances on receiving households must include an exploration of these consumption patterns. Ideally, time series data is needed to observe price changes and estimate price elasticities but where one only has cross-sectional data from household surveys, we are limited to the estimation of Engel curves (Sadoulet and de Janvry: 1995). Engel proposed that with an increase in income the share of expenditure on food in total household expenditure tends to decrease, while that on clothing, fuel and lighting remains constant and that on luxury goods increases (Siddiqui:1982).

The most important factor determining the pattern of consumption is the level of income. However, the distribution of income, level and distribution of assets, size and composition of households, number of earners in a household, geographical and ethnic differences, etc. may also alter the pattern of consumption (Siddiqui:1982). Most studies focus on the relationship between expenditures on different goods and income and household size.

The basic Engel curve is of the form:

$$q_i = q_i(y, z), \quad i = 1, 2, \dots, n \quad (1)$$

where q_i is expenditure on commodity i

y is household total income

z denotes characteristics that vary across households.

Using equation (1) above, we can estimate how consumption patterns vary between households at different income levels by estimating the income elasticity of the “ i ” commodity. There are several functional forms of the Engel curve depending on the interest of the researcher. We are particularly interested in the Engel curve having the property of variable income elasticities due to the empirical fact that income elasticities tend to change as income

increases (Sadoulet and de Janvry: 1995). It is found that from an empirical point of view, the semi-logarithmic form tends to perform best (Prais and Houthakker: 1955).

Thus the functional form selected for this model is:

$$q_i = (\log y) + (\text{rem}) + (\text{rem})(\log y) + (\text{hs}) \quad (2)$$

where q_i is expenditure on commodity i

$\log y$ is the log of household total income

rem is a remittance dummy variable (one if the household receives remittances, zero otherwise)

hs is household size

This functional form provide a good statistical fit to a wide range of commodities; the slope is free to change with income, and the chosen function conforms to the criterion of additivity and the sum of the marginal propensities for all commodities equals one. For this study in particular, we need marginal propensities, so the most useful form is one that allows for rising, falling, or constant marginal propensities to consume over a broad range of expenditure levels (Adams:1991). The interaction variables are included to allow the shift of both the intercept and the slope of the Engel curve.

Using equation (2) to estimate the model yields the following econometric specification:

$$q_{ij} = a + b (\log y_j) + c (\text{rem}_j) + d (\text{rem}_j) (\log y_j) + e (\text{hs}_j) + \varepsilon_{ij} \quad (3)$$

where,

q_{ij} is per capita household expenditure on commodity i by the j th household.

$\log y_j$ is the log of total annual per capita income of the j th household.

rem_j is a remittance dummy variable (one if the household receives remittances, zero otherwise).

hs_j is household size of the j th household.

ϵ_{ij} is the error term.

Thus, for a household receiving remittances the model is:

$$q_{ij} = (a + c) + (b + d) \log y_j + e (hs_j) + \epsilon_{ij}$$

While for the non-receiving remittance household the model is:

$$q_{ij} = a + b (\log y_j) + e (hs_j) + \epsilon_{ij}$$

The parameters of equation (3a) and (3b) are estimated for the 11,531 households in the sample of the 1989 ENIGH survey. The basic estimation technique used is ordinary least squares (OLS). The results are given in Table 2.9 and 2.10.

**Table 2.9 Regression Analysis by Spending Category, 1989.
Current Consumption and Investment-type Consumption**

Current consumption $R^2 = 0.7405$ $n = 11,517$ F-statistic = 4064.4 (0.0000)	Regression Coefficient	t-Statistic	Consumer goods $R^2 = 0.2245$ $n = 11,517$ F-statistic = 833.3 (0.0000)	Regression Coefficient	t-Statistic
Constant	0.7405	22.8639*	Constant	0.1520	10.2114*
Remittance dummy (rem)	-0.1905	-3.3153**	Remittance dummy (rem)	-0.1001	-5.5286**
Annual per capita income (y)	0.2573	18.5600*	Annual per capita income (y)	0.0924	7.7490**
Remittance-receiving household annual per capita income (y^*rem)	-0.1885	-5.0439**	Remittance-receiving household annual per capita income (y^*rem)	-0.0711	-5.9175**
Household size (hs)	-0.0252	-5.1667**	Household size (hs)	0.0014	0.9815

** significant at the 1% level

Author's calculations based on ENIGH 1989.

**Table 2.10 Regression Analysis by Spending Category, 1989.
Investment and Investment (urban zone)**

Investment R ² = 0.0992 n = 11,517 F-statistic=317 (0.0000)	Regression Coefficient	t- Statistic	Investment (urban) R ² = 0.1033 n = 7,395 F-statistic=213.0 (0.0000)	Regression Coefficient	t-statistic
Constant	0.1074	7.4651**	Constant	0.0982	7.6883**
Remittance Dummy (rem)	-0.0205	- 3.2991**	Remittance Dummy (rem)	0.0527	2.3628*
Annual per capita income (y)	0.0838	5.2208**	Annual per capita income (y)	0.1090	4.6006**
Remittance- receiving household annual per capita income (y*rem)	-0.0594	4.2840**	Remittance- receiving household annual per capita income (y*rem)	-0.0778	-2.2668*
Household size (hs)	0.0034	1.4450	Household size (hs)	0.0080	1.9584

** significant at the 1 percent level

* significant at the 5 percent level

Author's calculations based on ENIGH 1989.

The results of the model are shown in Tables 2.9 and 2.10 for the consumption, consumer goods, and consumption-investment type variables. The overall regression model accounts for a statistically significant proportion of the variation in per capita consumption as shown by the p-values of the F-statistic. On the one hand, the model explains fairly well the variability of expenditures on current consumption and investment-type consumption indicated by the significant parameters and the R². On the other hand, the model does not explain very well the variability in the investment-type expenditures. For the current consumption expenditures variable representing food, beverage, clothing, shoes, accessories, housing and utilities expenditures, furniture, appliances, transportation and personal care and accessories, there are economies of scale in basic consumption since the coefficient on household size is negative and significant. When each variable in this category is used individually as a dependent variable, this is also the case, although expenditures on vehicles is not a significant variable.¹⁴ The

¹⁴ Separate regressions were run for other individual types of expenditures.

positive coefficient for household size in vehicle expenditures (not shown here) would indicate that as the family size increases, there is a need for more not less vehicles.

Most importantly, the dummy variable for remittances is negative and significant indicating the households that receive remittances have a lower initial consumption and they also spend a smaller proportion of their income on autonomous consumption at a given level of expenditure. This is an important finding because it shows that households that receive remittances do not spend a disproportionate share of their remittance income on current consumption expenditures.

Expenditures on health are that are considered investment-type consumption expenditures shows a similar pattern (not shown here). There are economies of scale and the coefficient on remittances is negative and significant. Households receiving remittances also spend a smaller share of their income on health expenditure items. Educational expenditures also follow the same pattern. The smaller and significant coefficients for total income for remittance receiving households shows that as income increases, these households spent a smaller share of their income on current consumption items than households that do not receive remittances. Thus, we can infer that households receiving remittances save a larger proportion of their income than non-receiving households at a given level of expenditure.

An analysis by urban and rural zones was also performed. The results indicate that while the remittance variable is statistically insignificant in the rural zone for explaining investment expenditures, in the urban zone, it is statistically significant. The explanation may lie in the commercial opportunities available in the urban areas such as better infrastructure, larger demand for products, availability of credit, etc. Thus, this evidence leads us to believe that investment expenditures are a response to structural conditions that allow the productive use of resources. It also indicates that even in the rural areas where apparently there is no significant direct investment by rural households,

one may find that there are significant expenditures directed towards the large commercial centers close to these rural areas. Thus, there is a need to look at the economy-wide effects of remittance inflows.

2.5 Conclusions and Policy Suggestions

Mexican households that receive remittances receive an average monthly remittance of US\$476. That is the equivalent of a minimum wage salary. This amount is used mostly for current consumption. It is concentrated in certain states and within those states in small municipalities. At the state and community level in some states, these flows exceed federal expenditures on education, health and poverty abatement programs. There is also evidence that more states are becoming part of the sending regions and that the number of households receiving remittances nationwide has almost doubled from 1989 to 1996. A natural policy concern is whether these flows are crowding out private and public investment; therefore, a further study to determine whether this is the case is warranted.

Contrary to conventional wisdom, the number of urban households receiving remittances has increased by more than 100 percent while the number of rural households has only increased by about 75 percent. As new migration flows emerge from rural areas that have not traditionally sent migrants like Oaxaca and Veracruz, it seems that Mexican migration has not lost its rural characteristics. Due to migrant selectivity, this trend implies that flows of mostly unskilled labor with lower levels of education will continue.

It was also shown empirically that remittance-receiving households have lower average expenditures per household in most spending categories. After controlling for income level, these households do not necessarily spend more out of their income than the rest of the population. It could even be suggested that they are saving more than the rest of the population at the margin, thus there is no evidence of “demonstration” effects.

Thus, matching fund type-policies like the 3x1 or more recently 4x1 (with the addition of Western Union) may enjoy a good probability of success given

migrant's propensity to save and consume. Seed money for start-ups and business training may also find receptive ears among the migrant community.

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CHAPTER 3: REMITTANCES, DEVELOPMENT AND POVERTY IN MEXICO: A CRITICAL VIEW

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3.1 Introduction

Remittances are a main category of transfer in the current account of the balance of payments for many developing or recently industrialized countries, and they constitute a significant injection of economic resources into specific sectors of the regional and local economies of those nations. Although only a small proportion of these flows are saved or productively invested, the large volume of remittances in recent years has awakened great political and social interest in increasing their potential benefits as sources of financing for local and regional development.

In 1985, remittances worldwide represented a flow of almost US\$40 billion. That figure rose to a little more than \$75 billion by 1990, exceeded \$100 billion in 1996, and surpassed \$130 billion in 2002.¹ Based on that trend, it is estimated that remittances in 2004 will have surpassed \$150 billion.

Given these trends and seeing that a large portion of remittance flows go to developing countries, several international forums have proposed channeling these resources into financing development in the recipient economies. Unsurprisingly, international development-assistance organizations (the World Bank, International Monetary Fund, Inter-American Development Bank, and Organization for Economic Cooperation and Development, among others) have been paying special attention to remittances as a tool for poverty reduction and development in the countries where international migration originates. A good example is the action plan, *Applying the Power of Entrepreneurship to the Eradication of Poverty*, subscribed to by the largest group of industrialized countries known as the G8 during the Sea Island Summit in 2004. It contains a

¹ UNCTAD, *Handbook of Statistics, 1990-2003*. CD-Rom version.

specific section on remittances, emphasizing their effect on the family well-being and the creation of small businesses that would promote development in migrant-sending communities.

A critique of this institutional discourse on migration and remittances has recently appeared which redefines the terms formulated for the remittance-development relationship by these international cooperation organizations and the various national governments. In particular, it has been noted that these approaches suffer from various conceptual and methodological deficiencies, and at the same time, they rest on hypotheses and analytical models that have not been duly tested against the empirical data, especially regarding the benefits and the impacts of remittances on development, poverty reduction, and social inequality (Binford: 2002; Canales and Montiel: 2004).

This chapter's objective is to present statistical information to ground this critique with empirical data. The Mexican case will be a reference point because, in addition to being the top receiving country in the world in terms of remittance since 2002, sufficient statistical information exists for Mexico to allow for an analysis of various aspects and dimensions of remitting. The chapter is divided into three sections: (1) a brief summary of the main arguments that feed the debate on the role and potential for remittances; (2) presentation of statistical information for measuring the macroeconomic significance of remittances in Mexico; and (3) an estimate of the role of remittance in reducing poverty and social inequality.

3.2 Remittances and Development

3.2.1 The Discourse of Multilateral Organizations

In the second half of the 1990s, various international development organizations began paying greater attention to remittance flows, emphasizing their potential effects on the development in migrant-sending countries. Notably, this interest in the effect of remittances on family well-being and local development appeared in a context characterized by structural adjustment and

trade liberalization policies' failure to improve living conditions for most of the population in the developing world.

Within this context and in the face of increasing remittance flows, multilateral organizations proposed that together with other social capital (such as social and family networks, family and community work, and migrant organizations), remittances are valuable resources for the poor. When used well, these monies would make it possible to overcome social vulnerability and economic precariousness, even in highly unfavorable structural environments.² In their development strategies, national governments and international organizations have both emphasized the need to use remittances for creating small and medium-sized businesses and for other types of expenditures that would encourage the formation of productive and human capital (Ratha: 2003). In the case of Mexico, this idea has already become part of official government programs in which self-employment and the formation of family businesses (*changarros*) financed with remittances are offered as an alternative to unemployment and poverty.³

The formulation of these sorts of directives fits into the new ways of looking at development that appeared in the 1990s. These approaches question the state's capacity to lead the way in economic and social development and suggest trade liberalization and flexibility in economic regulations as an alternative. From this point of view, economic liberalization would also benefit the poorest segment of the population. That would be accomplished by allowing them to develop their own capacities, which until now have been constrained by the state-controlled economy and persistence of

² This proposition is based on the asset/vulnerability framework developed by the World Bank. This approach posits that vulnerability could be counterbalanced by the poor's wise management of their own assets (social, economic, cultural, political, or demographic), independent of their low incomes and the external structural context imposed on them. For more details, see Moser 1998. For critique of the asset/vulnerability approach, see Rodríguez 2001 and Canales 2003.

³ This is the case, for example, with the Two-for-One and Three-for-One programs, which seek to encourage productive investment and small business creation by migrants and their relatives. On the far reaching consequences of these programs, see Delgado Wise et al. (2004), Torres (2001), Esparza (2000), and Moctezuma (2000).

clientelistic networks that, in exchange for guaranteeing the survival of that social stratum, perpetuate their state of poverty and social vulnerability.⁴

In this context, the new development policies of the 1990s aimed to have the poor use the resources available to them to take advantage of the new economic environment. In contrast to the *welfaristic* character that had infused previous policies to combat poverty, this new approach now focused on encouraging correct *management* of the poor's activities and resources so that they themselves could confront and overcome their poverty and vulnerability. Measures such as *empowerment*, self-employment, and the utilization of social capital would constitute privileged mechanisms for reducing vulnerability of the poor, who would be the protagonists of the development process. They already had the necessary resources, including remittances, to accomplish that. They only needed to learn to use those assets and *manage* them correctly.

In that sense, there are four ways through which remittances might improve the well-being of recipient families and also promote development in their local communities:

i) Productive investment. Several academic studies have documented distinct examples in which remittances have contributed to financing productive projects (especially in rural environments), thus encouraging local development through dynamic industries that are inserted into regional economic circuits.⁵ Based on those findings, policies have been put forward to encourage and support productive investment by migrants. Examples include the Two-for-One and Three-for-One Programs, where for each dollar that the migrant contributes to a productive project, the government, through various local, state, and

⁴ To the maximum extent possible, we have summarized the purported arguments in favor of this program, highlighting only a few of their elements. For a broader vision on this approach, based on the Mexican case, see the first part of the report on poverty in Mexico, prepared by the World Bank in 2004. For a critique of this approach, see Boltvinik (2005).

⁵ See the work of Durand (1994), on shoemaking in San Francisco del Rincón, Guanajuato; Jones (1995), on peach production in Jerez, Zacatecas; and the application of econometric models by Durand, Parrado, and Massey (1996) to estimate the level of local remittance investments. In other geographic contexts, Russell (1992) gives similar examples for the case of intensive agriculture in communities experiencing high levels of emigration in the Sahel, Turkey, and Zambia.

federal agencies, contributes two or three dollars. These sorts of programs have grown in the past decade, especially in regions of Mexico with a long tradition of migration, as well as in Central America and the Caribbean (Torres: 2001; CEPAL: 2000; Moctezuma: 2000).

ii) Social inequality. It is widely accepted that remittances improve living conditions and well-being for the recipient population, thus reducing the incidence of poverty (Jones 1998). On one hand, the volume of the remittances broadly exceeds the level of income from any local or regional economic or productive activity. On the other hand, remittances are more effective in reducing poverty than other types of transfers because they flow directly to those who most need them without passing through patronage or bureaucratic filters (Durand, Parrado, and Massey: 1996). Other authors have estimated based on probabilistic models that remittances tend to positively affect income distribution, especially at the regional and local level (Taylor: 1992; Djajić: 1998). Thus, it can be claimed that remittances, more than other transfers, are markedly progressive in terms of income distribution, especially in the case of Mexico, where those who benefit most are poor rural households (Banco Mundial: 2004).

iii) Macroeconomic Stability. In light of the high volume of remittances, various official organizations also note the contribution remittances make to macroeconomic stability in sending countries. In particular, compared to other traditional sources of foreign exchange, remittances show greater dynamism and stability, making them a more reliable source of income and one that allows people to overcome crises. Indeed, historical series show that in periods of economic crisis, when foreign money and domestic savings often experience capital flight, remittance inflows, in contrast, increase (Ratha 2003, Canales and Montiel 2004). Such was the case for Mexico in 1995, Indonesia in 1997, Ecuador beginning in 1999, and Argentina after 2001.

iv) Banking Services for the Poor. When remittances pass through formal channels, they can contribute to the development and strengthening of the receiving country's financial sector. To the degree that more families receive remittances through banking institutions, they can become clients of

those institutions, accessing various loan and financing plans for both consumer uses (housing, health, education, transportation, etc.) and productive investment. Not surprisingly, both governments and financial institutions are encouraging access to banking services for migrants and their families, as a mechanism to facilitate, expedite, and lower the cost of remitting.⁶

3.2.2 Migration and Remittances: A Critique

The official discourse gives an impression that remittances are a modern balm of Fierabras, a panacea with the virtue of solving all social problems. From our perspective, however, the discourse exalting the potential of remittances suffers from several conceptual and methodological shortcomings because it is based on hypotheses and analytical models that have not been duly tested against the data and empirical evidence. We offer a set of arguments to redefine the debate on the remittance-development relationship, at least as that relationship has been formulated in the discourse of international organizations (Binford: 2002; Canales and Montiel: 2004).

First, remittances are neither a way to save nor a source for productive investment. Instead, they constitute a *fondo salarial* (earned income), which is destined principally for household consumption and material reproduction (Canales: 2002). If we consider that Mexican emigration to the United States is overwhelmingly labor-related, there is no doubt the income obtained by migrants represents wages that, like any other earnings, tend to be used preferentially for the material reproduction of the family. Thus, remittances help improve living conditions for the families of emigrants, counterbalancing the impoverishment that has resulted from recurrent economic crises and the effects of neoliberal structural adjustment policies. The sole difference when compared to other sources of household income is that, in the case of

⁶ An example is the policy of some U.S. banks: When a person opens a savings account, these banks accept as valid identification the consular card that the Mexican government issues to migrants in the United States. This has given access to the banking system to a large portion of undocumented Mexican migrants who a few years ago could not have hoped to open a savings account in the United States.

migrants, this income is channeled to their families through “international transfers.”

Second, various studies agree that remittances primarily finance the material reproduction of the migrant households and that the proportion destined for productive projects is very small (Papail: 2002; Samuel: 2000; Rodríguez: 2000). Similarly, even though remittances usually represent an important component of family income for those families that receive them, their impact on reducing poverty and social inequality is limited and, for the most part, is visible only in specific individual cases (Paz et al. 2004; Martínez: 2003). Even though the aggregate amount of remittances is extremely high, at the micro-social level, the volume is thinly spread out over a great multiplicity of transmissions of small quantities of money. In effect, according to data from the Banco de México, in 2004, US\$17 billion was remitted in more than 50 million transfers, at an average of only \$327 per transaction. Thus, the potential effect of remittances on poverty is restricted to what \$327 can contribute to each household, which obviously, is very limited.

Third, even when remittances are invested, the projects tend to have little effect on local and regional development, since they generally involve small establishments (in economic terms) that serve only the local economy or at best, marginally the regional economy, creating a few jobs but low returns on the investment (Canales and Montiel: 2004; Papail: 2002; Ortiz: 1997). In fact, these supposed productive projects really represent family survival strategies rather than being a part of a broad market dynamics.

Fourth, regarding the stabilizing role of remittances, the World Bank and the International Monetary Fund have framed the issue in a way that obscures a fundamental fact. If the remittances really are a fund for macroeconomic stabilization in our countries, then we must recognize with equal force that it is the migrants themselves who, by sending money, are subsidizing the perverse effects of structural adjustment policies, the same policies that are implemented precisely at the suggestion of these organizations. The implications of this fact demand that we go beyond purely economic issues, in order to broaden the debate to include its political and ethical undercurrents: We need to ask

explicitly why migrants themselves must carry the burden of the costs of restructuring our economies, when their own vulnerability and precariousness are created by those same policies aim at opening the global economy.

Finally, some authors have also called attention to the fact that the interest in the economic impact of remittances and their determinants has led to abandoning the analysis of other equally important dimensions (Guarnizo: 2003). It is worth considering that remitting is unfailingly connected to the existence of transnational households and communities, not only as a consequence of transnationality but also as part of a process of forming such communities (Delgado Wise et al. 2004). Indeed, in other studies, we have demonstrated how remittances are a key mechanism to ensure the continuity across time of transnational communities (Canales: 2004, Serrano: 2002). Consequently, approaches that consider the transnational dimension of migration and remittances can, to say the very least, be as fruitful as an economic approach, and they undoubtedly contribute to an understanding of the causes and consequences of these phenomena.

3.3 Migration and Remittances in Mexico

3.3.1 The Macroeconomic Dimension of Remittances in Mexico

Between 2000 and 2005, remittances nearly tripled, from almost US\$6.6 billion to more than \$17 billion, based on Banco de México estimates. Because of their large size and persistence over time, the claim is often made that remittances constitute a critically important macroeconomic variable that has various positive effects on the Mexican economy. However, we maintain that these optimistic points of view suffer from conceptual and methodological deficiencies that result in biases and distortions in estimating the macroeconomic importance of remittances and in the analysis of their impacts on development, macroeconomic stability, and poverty reduction.

Below we present statistical information that lets us cast doubt on the purported relative importance of remittances. We analyze three aspects that allow us to measure the macroeconomic significance of remittances: their

quantitative importance in comparison to other macroeconomic variables, their role in the generation of foreign exchange, and finally, remittance cycles and trends over the past twenty-five years.

i) The macroeconomic importance of remittances. The first distortion in the analysis of the impacts of remittances occurs when an attempt is made to measure the overall value of remittances in relation to various macroeconomic indicators. Traditionally, comparative measures have used indicators directly related to the generation of foreign exchange, such as oil exports, *maquiladora* exports, and foreign direct investment, among others. Although this comparison in itself is not wrong, the error comes in implicitly assuming that by being a source of foreign exchange similar to those just mentioned, remittances will have similar macroeconomic properties and effects. To be exact, it must be noted instead that these comparisons give us a good idea of the quantitative size of the remittances, but in no way does it indicate their possible impacts and effects on the Mexican economy. We think it is more appropriate to use as comparative indicators not only those related to the generation of foreign exchange but also those that measure other aspects of the national economy, such as GDP, the value of total earnings, the value of earnings from the *maquiladora* sector, household consumer spending, among other things. These indicators give us a better idea of the impact of remittances, understood not only as a source of foreign exchange but also as a source of earned income.

In absolute terms, remittance amounts are undeniably high, with Mexico being the top receiving country worldwide. However, in relative terms, the situation is more ambiguous. On one hand, in 2004, total remittances represented less than 3% of GDP, and less than 4% of the value of personal consumption for that year in Mexico. In other words, despite their great size, remittances contribute very little to the Mexican economy overall, and they finance only a very small percentage of personal household consumption.⁷

⁷ In Mexico, fewer than 6% of the households receive remittances from abroad. Consequently, the contribution of remittances to aggregate consumption is limited to what those funds can contribute to private consumption in the scant 6% of Mexican households that receive remittances. In other words, although remittances in absolute number are huge, their effect at the macroeconomic level is relatively

These data refute the widespread idea that the Mexican economy is greatly dependent on this flow of foreign exchange.

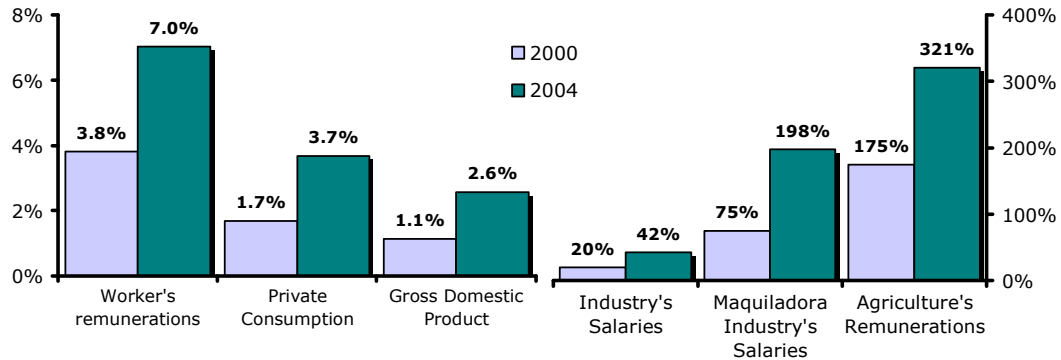
However, in both cases, the specific weight of remittances in 2004 was more than double what it had been in 2000. Thus, despite the very low relative effect of remittances, the upward trend and recent evolution in the size of the flow stands out, indicating a specific weight that is increasingly important.

Now, if we consider that remittances are earned income and we compare them with other categories of labor-related income, we see that remittances equal or surpass the compensation for work performed in various sectors of Mexico's national economy. Aggregate remittances in 2004 represented earned income equivalent to 7% of the total earnings of Mexico's employed population, but when we compare that aggregate figure with the earnings in *strategic* sectors, the situation is very different.

In 2004, remittances were the equivalent of 42% of income earned by workers in the manufacturing sector, twice the ratio that existed in 2000 (figure 3.1). Similarly, remittances were almost two times greater than the income generated by the *maquiladora* export industry, a figure that is 2.5 times greater than the ratio in 2000. This last comparison is very significant, since it indicates that in terms of generation of direct income for households, remittances not only are much more important than income generated by one of the most dynamic sectors of the economy, but they also exhibit even greater dynamism. Finally, remittances represented earned income equivalent to more than three times the volume of earnings generated in the forestry, farming, and livestock industries. This is also very relevant, since we should not ignore that in Mexico; almost two-thirds of the remittance-receiving households are located in rural areas.

marginal. In the third section, we present more information on these and other aspects relating to the receipt of remittances in Mexico.

Figure 3.1 Remittances as a percentage of macroeconomic indicators, Mexico 2000-04



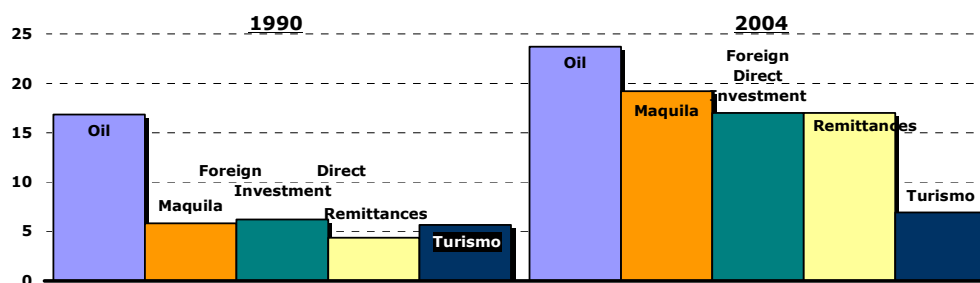
Source: Own calculations from data from INEGI and Banco de Mexico

ii) Remittances' role in generating foreign exchange. A claim is often made that the size of remittance flows makes them an increasingly irreplaceable source of foreign exchange for the country because they help balance the external macroeconomic accounts. However, in general, the broader context of structural transformation in Mexico's foreign trade is not taken into consideration. Indeed, in 1990, oil constituted the principal source of Mexico's foreign exchange. Oil exports in those years matched the combined income of the *maquiladora* industry, tourism, foreign direct investment, and remittances. In contrast, in 2004 even as oil continued to be the top generator of foreign exchange, the importance acquired by foreign direct investment along with *maquiladora* industry net exports and migrant remittances stands out (figure 3.2). Overall, foreign exchange from these three activities is over 2.3 times greater than that generated by oil.

Indeed, both at the beginning of the 1990s as well as more recently, remittances values are very similar to those for foreign direct investment and *maquiladora* exports. Interestingly, these three variables have undergone a similar and significant spurt in the past fifteen years. Thus, it is wrong to suppose that the current strength in the external balance of payments is mostly due to sustained and growing remittance flows. To the contrary, the maintenance of the external macroeconomic equilibrium is not based on the

dynamics of an isolated variable, but rather on a broader and deeper process of structural transformation that has led to a greater diversification in sources of foreign exchange. Within that context, remittances are only one more component among many other important sources of foreign exchange.

**Figure 3.2 Mexico's sources of foreign exchange, 1990 & 2004
(billions of dollars at 2004 prices)**



Source: Own calculations from INEGI's Economic Information Bank

iii) Remittance growth and trends. People often make a serious methodological mistake by using the nominal value of remittances without applying any deflation based on the growth of prices and the exchange rate.⁸ This leads to a conclusion, repeated by everybody, that remittances are exhibiting a sustained and systematic rhythm of growth, showing a linear if not an exponential trend line.

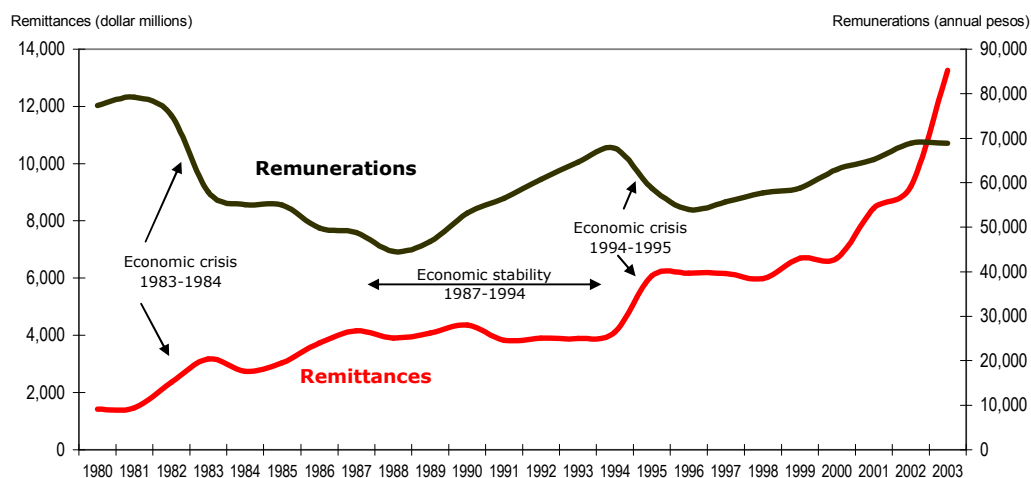
However, when we consider not their nominal value but rather the real value of remittances, that is, their deflated value based on price indexes and exchange rates for each year, one sees a very different trend. In contrast to what is widely believed, remittances in the past twenty-five years have not followed an upward linear trend line; instead, they have exhibited a unique behavior, combining cycles of growth with cycles of stability. Indeed, when one looks at the details, it is apparent that the growth cycles coincide precisely with

⁸ The growth in the nominal value of remittances may have two possible causes: price inflation or a real increase. To obtain the latter, it is necessary to deflate nominal values of the series based on price and exchange-rate trends. That correction having been made, the trend in the deflated values is what is shown in the figure and discussed in the text.

the periods of crisis and economic stagnation in Mexico. It would seem that remittances follow a trend opposite to that of Mexico's economic cycles.

At the beginning of the 1980s, remittances to Mexico were about US\$1.4 billion (see figure 3.3). Between 1982 and 1983, the economic crisis was accompanied by a substantial reduction in real earnings and a doubling of remittances which reached almost \$3.2 billion in 1983. Although they dropped to \$2.7 billion in 1984, they began to climb again, until stabilizing between 1987 and 1994 at around \$4 billion reflecting a growth cycle in the Mexican economy, where wages usually grow.

Figure 3.3 Time series of worker's remittances and average annual remunerations (dollars and pesos at 2003 prices)



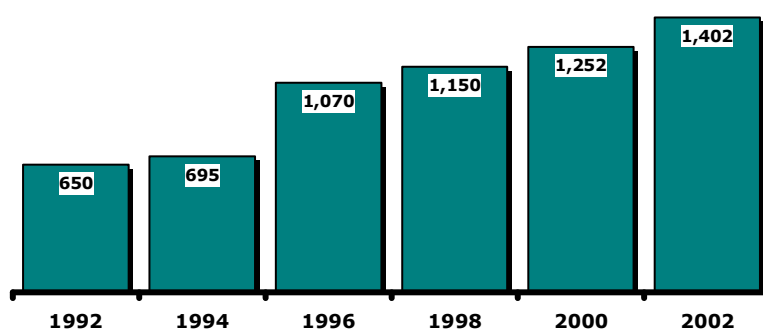
Source: Own calculations based on data from INEGI and Mexico Central Bank

With another economic crisis in 1994-1995 and the consequent reduction in real earnings, remittances again began to grow, reaching \$6 billion. From then until 2000, both remittances and earnings stabilized, although with some minor fluctuations. For example, 1998 saw a small decline only to grow again in 1999 and 2000, when they reached \$6.7 billion.⁹

⁹ Starting in 2001, the Banco de México improved its system for tracking remittance flows, which partly explains the large increase starting in that year. In particular, the accounting of electronic transfers has improved. These went from US\$13.6 million transactions at the end of the 1990s to almost \$30 million in

The peculiar behavior of remittances shows a trend which is *counter-cyclical and unaffected by downturns*,¹⁰ illustrating their character as a compensating mechanism for family economies in the communities of origin (Canales and Montiel: 2004). During economic crises, household economies experience a consumption-income imbalance: the devaluations increase the cost of consumer goods while the buying power of wages and other income drops. In such situations, money remitted in dollars can maintain a level of consumption similar to that prior to the crisis. This behavior supports our hypothesis that remittances are an income transfer that migrants send to their families in Mexico, the impacts and uses of which are the same as are those of any other type of income, in that they finance the family's material reproduction.

Figure 3.4 Remittance-receiving households (in thousands) in Mexico, 1992-2002



Source: Own estimates based on ENIGH.

This characteristic of being counter-cyclical and unaffected by economic downturns can also be corroborated when considering the growth in the number of Mexican households that receive remittances. Between 1992 and 2002, recipient households more than doubled, from 650,000 to 1.4 million.

the past three years. However, average remittances have stayed stable at a level near US\$300 per electronic transfer.

¹⁰ That is, normally, its slope is inverse to the slope for remittances, even though occasionally it can be negative. Between 1980 and 2000, the Pearson's correlation index between remittances and wages was negative, with a significance level above 96%.

However, this did not trace a linear and continuous trend. The greatest growth occurred between 1994 and 1996, during one of Mexico's worst economic crises. The number of recipient households grew from 700,000 to almost 1.1 million, a 50% increase in only two years (figure 3.4). Subsequent growth has been much slower: 7.4% between 1996 and 1998, 8.9% between 1998 and 2000, and 12% between 2000 and 2002.

3.3.2 Remittances as Earned Income

As we have noted, remittances sent by Mexican migrants are essentially earned-income transfers. To illustrate this, we analyze remitting behavior by migrants in terms of the propensity to send money, frequency and timing of transmissions, amounts sent in each transfer, and the use that is made of this money.¹¹

First, Mexican migrants exhibit a strong propensity to send money to their families, and they do so frequently. Based on data from the *Encuesta Sobre Migración en la Frontera Norte* (Survey on Migration along the Northern Mexican Border, EMIF), we estimate that between July 1998 and July 2003, almost three in every four working migrants regularly remitted to their families in Mexico (table 3.1). On average, migrants remitted every month and a half, indicating a pattern of great regularity, frequency, and recurrence. One explanation is that remittances are earned income, and as such, they must flow in a regular and recurrent manner, since they are essential for supporting daily consumption in the migrant's household in Mexico. Similarly, remittances sent in the past month represented, on average, almost two-thirds of the migrants' earnings, not an insignificant proportion. This indicates that the income that working migrants receive in the United States is used primarily by relatives in Mexico for their own consumption and material reproduction. These same data

¹¹ Data from the *Encuesta de Migración a la Frontera Norte* (Survey on Migration along the Northern Mexican Border, EMIF) and the *National Survey of Latino* (NSL). The first is a survey that has been continuously administered since 1993 by El Colegio de la Frontera Norte; the second is a survey conducted in 2004 by the Pew Hispanic Center and the Kaiser Family Foundation. It should be noted that those three organizations do not take any responsibility for the interpretations and conclusion based on analyses of their data.

indicate that the savings capacity of migrants is very limited and minimal. Indeed, it is likely that the remaining one-third of their income is used for migrants' own maintenance during their stay in the United States.

Table 3.1 Migration and remittance data (dollars at current prices, Mexico 1998-2003)

	July 1998 July 1999	July 1999 July 2000	July 2000 July 2001	July 2001 July 2002	July 2002 July 2003	Average
He/she worked last travel	174636	150863	108639	118867	134342	687347
He/she sent remittances last travel	130291	110556	84377	84920	95083	505227
% send remittances	74.6%	73.3%	77.7%	71.4%	70.8%	73.5%
Last month's income	1297.0	1427.1	1306.5	1437.6	1400.3	1370.4
Last month's remittance	923.3	898.4	800.4	916.7	923.2	894.5
% Remittances of Income	71.2%	62.9%	61.3%	63.8%	65.9%	65.3%
Average time working (months)	6.7	6.6	6.6	7.0	7.3	6.8
Average annual remittance	6232	5939	5305	6398	6752	6115
Average remuneration in Mexico	4435	5288	6076	6485	6247	5706

Source: Own estimates based on EMIF, phases IV to VIII and INEGI's Economic Information Bank

When considering the average time that employed migrants worked during their last year in the United States, we can estimate that the annual volume of remittances sent rose, on average, by a sum close to US\$6,200. In other words, between July 1998 and July 2003, each employed migrant who regularly sent remittances (75% of all temporary work migrants) would have transferred annually an average of \$6,200 to their families in Mexico. That figure is not insignificant when we consider, for example, that the average income in Mexico during that period was about \$5,700 annually. In other words, the average remittances sent annually by each migrant represented income that was only 10% greater than would have been their expected income in Mexico.

These sums and the regularity of remitting indicate that, at a microeconomic level, rather than being a source for family investment, remittance amounts are very similar to income earned in Mexico. The \$6,200 sent annually by each migrant comes in small, recurrent transfers, which are certainly an important source of income and improve living conditions for recipient families. However, that \$6,200 is far from being sufficient to

encourage or generate productive family projects.¹² In the aggregate, remittances represent a huge volume of money, but at the microeconomic level, what each household receives is very similar to the average level of wages in Mexico, certainly, an amount that is small and only enough to cover everyday household expenses.

This hypothesis about the character of remittances as earned income is even better illustrated when we analyze how they fit into the family budget. In particular, based on the EMIF, our estimates found that in 70% of the cases, remittances were used principally to finance family consumption, while 21% went to buy or remodel the family house or to buy a car. Only 6.5% were used for investments, such as purchasing land, cattle, or agricultural supplies or in urban areas, a small business (table 3.2). These data indicate that if remittances have an economic impact, it centers principally on improving the living conditions and reproduction of migrants' families, by reducing poverty and social inequality. However, in terms of generating investment resources, remittances have a marginal and limited impact.

Table 3.2 Main remittance use declared by sender, Mexico, 1998-2003

	July 1998 July 1999	July 1999 July 2000	July 2000 July 2001	July 2001 July 2002	July 2002 July 2003	Average
Total	100%	100%	100%	100%	100%	100%
Households' daily living	62.9%	64.5%	82.5%	67.3%	76.3%	69.3%
Automobile and housing	31.9%	16.8%	14.4%	20.5%	15.0%	21.0%
Investment (Land and businesses)	2.9%	15.0%	1.1%	5.7%	7.3%	6.5%
To pay off debts	1.2%	2.4%	0.7%	0.7%	1.0%	1.3%
Other	1.2%	1.2%	1.3%	5.8%	0.3%	1.9%

Source: Own calculations based on EMIF, phases IV to VIII

Another aspect supporting this perspective on remittances involves the characteristics of the remitting migrants. Available data show that at its core, remitting involves poorly paid migrant workers, who for that reason do not have

¹² Elsewhere, we have estimated that to start a mid-sized business in towns or small cities in Mexico, one needs an investment of between US\$20,000 and \$30,000, or more than three to five times the average annual amount remitted by a migrant (Canales and Montiel: 2004; Canales: 2002).

the resources or economic capacity to generate savings sufficient to sustain investment projects in their communities of origin. Indeed, it is the migrants with lower incomes and from the mid-to-low social strata who are most likely to remit, and, at the same time, they are the most likely to remit larger sums of money.

The *National Survey of Latinos* (NSL 2004), a 2004 poll of the Latino population residing in the United States, indicated that the poorest migrants showed a greater tendency to remit. Among migrants from high-income households (defined as having an annual family income above US\$50,000), 14% send remittances, whereas among middle and low-income households (with incomes under \$50,000), that figure is almost five times higher (table 3.3). Notably, migrants from the poorest and richest households remit essentially the same average amounts, whereas middle-income households (those that earn between 25,000 and \$50,000 annually) remit almost 50% more than the other two categories. In other words, in the case of migrants residing in higher income households, the greater availability of economic resources is not reflected either in the propensity to remit or in the amounts sent. Despite having less income, migrants from low-income households (those earning \$25,000 or less annually) on average remit amounts similar to those sent by remitters in high-income households. It is a paradox that low-income households, despite being financially poorer, remit a greater proportion of their incomes than do wealthier households. Low-income remitters send an average of 21% of the annual family income, whereas middle-income families remit only 15%, and high-income households remit a mere 4.6%.

Table 3.3 Remittances by migrants in the United States by household income stratum

Annual Household Incomes' Stratum	Proportion of remittances' senders	Remittance's average value	Income's proportion sent as remittances	Distribution of the whole of remittances
Total	64.9	3968	16.6%	100.0%
Less than 25 thousand dollars	68.8	3248	21.0%	43.8%
25 thousand to 49.9 thousand dollars	74.7	4879	15.2%	54.6%
50 thousand dollars or more	14.3	3065	4.6%	1.6%

Source: National Survey of Latinos, 2004. Pew Hispanic Center.

Migrants in poorer households also send a greater proportion of the annual volume of remittances. In 2004, low-income households sent 44% of the overall volume of remittances, whereas high-income families (making \$50,000 or more annually) contributed less than 2%. This illustrates a basic, significant fact for understanding remittances: It is not only a special type of income transfer but moreover, this earned income has a very well defined social and class origin. It corresponds to transfers made by the poorest strata of society. Additionally, remittances are not a form of savings or investment or any such thing; instead, they represent a portion of the wage earnings of low-income workers, exposed to labor-market precariousness and social vulnerability. These are the people who send money to their relatives in Mexico who, in turn, are surviving in conditions of poverty and social marginalization.

3.4 The role of remittances in poverty reduction in Mexico: Myths and Reality

A recurrent theme in discussions on remittances is their important role in sustaining the family economy within recipient households, and in turn, the effect of remittances on reducing poverty and social inequality in Mexico. Thus, for example, in a report on poverty in Mexico, the World Bank noted that “remittances have had an elevated (and growing) influence on the reduction of extreme poverty in the households involved,” especially in rural areas (Banco Mundial: 2004, 206). On several occasions, the government has claimed that poverty reduction is due “in large part to remittances that Mexican migrants

send,” and that remittances represent “an annual volume much larger than the federal government’s total investment in agriculture, education, and social development” (statements by Mexican President Vicente Fox, published in the November 12, 2003, issue of *La Jornada*).

Clearly, remittances are a fundamental support for the families that receive them. So, the debate instead is really about measuring the true role of remittances in reducing poverty for the Mexican population, or at least, in the qualitative improvement in well-being for recipient households. Our argument is that even when remittances are an essential component of family income and improve living conditions in the recipient population, for most remittance-receiving households, this money is, nevertheless, insufficient to create social mobility that could help those households get out of poverty and overcome the precariousness in which they are mired. In other words, although remittances improve the quality of life in recipient households, they do not make a similar contribution to reducing poverty and social inequality (Cortina, de la Garza, and Ochoa-Reza: 2004; Martínez: 2003).

Having corroborated this hypothesis, the logical corollary is that remittances are only a palliative for poverty, rather than solving its principal manifestations or its structural causes. Migration and remittances cannot be presented as a solution for poverty—not only for ethical and political reasons but also because the level and impact of remittances simply does not merit that.

We will now present statistical information that supports this hypothesis, using data from the *Encuesta Nacional de Ingreso y Gasto de los Hogares* (National Household Income and Expenditure Survey, ENIGH), which is the source the Mexican government uses to measure poverty and social inequality. This survey offers the best and most detailed statistics on the level and composition of household income and expenditures, including, obviously, remittances sent by migrants from the United States.¹³ In our case, we employ

¹³ In 2002, the ENIGH offered reliable estimates of monetary and non-monetary income, disaggregated into more than 70 categories, among them income and transfers from abroad. In particular, the income

data from the 2002 survey, which is the most recent that we could get access to.¹⁴

3.4.1 The social condition in remittance-receiving households

When assessing the impact of remittances, the first thing to consider is that despite the unarguably large volume of remittances entering Mexico,¹⁵ their aggregate impact will necessarily be reduced since only a small portion of the households receive them.¹⁶ In 2002, ENIGH reported that there were 1.4 million remittance-receiving households, only 5.7% of all Mexican households. If we consider the resident population, the situation is practically the same. In 2002, almost 5.6 million people reside in recipient households, which is 5.5% of Mexico's population. These data are consistent with the fact that in the case of Mexico, remittances represent a small fraction of national GDP. It is worth noting that in terms of social structure and residency, remittance-receiving households tend to be concentrated in certain social strata and geographic regions. Thus, even though their impact at an aggregate level may be limited and marginal, at the level of the specific social environment, the impact is much greater (see table 3.4).

categories for remittances were: (1) monetary and non-monetary transfers from other households outside of Mexico; (2) retirement and pensions from other countries; and (3) rental and real estate income from properties outside of Mexico owned by a member of the family.

¹⁴ At the time of writing this, the 2004 ENIGH microdata were not yet available for public use.

¹⁵ Since 2001, Mexico has become the main receiving country for remittances worldwide. See information in UNCTAD, *Handbook of Statistics, 1990-2003*. CD-Rom version.

¹⁶ In other Latin American countries, such as El Salvador, the Dominican Republic, Nicaragua, and Ecuador, for example, the situation can be different. Unlike Mexico, a much higher proportion of households and people receive remittances in those countries, while the overall volume of remittances has a larger weight when compared to GDP and the national economy. For more details, see Canales, 2005.

Table 3.4 Population and households by remittance recipients

Receive remittances	Households		Population	
Total	24'618,706	100%	101'480,820	100%
Remittance recipients	1'401,986	5.7%	5'590,828	5.5%
Non-remittance recipients	23'216,720	94.3%	95'889,992	94.5%

Source: Own estimates based on INEGI, 2002

First of all, 65% of the remittance-receiving households are in rural areas (defined as places with fewer than 15,000 inhabitants), even though only 36.5% of all Mexican households are located in communities of that size. In contrast, only 35% of remittance-receiving households are in urban areas (places with more than 15,000 people), where more than 63% of all Mexican households are found. In other words, in rural localities there is a ratio of 11.3 recipient households for every 100 non-remittance-receiving households, a figure that is almost four times higher than the number of recipients in urban areas, where the ratio is only 3.2 recipient households for every 100 non-recipient ones. These data indicate that Mexico's rural households preferentially receive remittances. Thus, it is to be expected that the potential effects of remittances would be more visible in rural communities, while they might be harder to perceive in medium or large urban cities. Second, in relation to the distribution of households by social strata,¹⁷ we find a similar pattern in table 3.5.

¹⁷ The social stratification scheme that we use has been constructed based on the classification and measurement of poverty that the Ministry of Social Development (SEDESOL) developed, with the following adjustments:

- **poor households** are those that SEDESOL breaks into three categories: *Pobreza alimentaria* (nutritional poverty): households that do not have sufficient income to cover the cost of food; *Pobreza de capacidades* (capability poverty): in addition to food, the inability to satisfy other basic needs, such as health care and basic education; *Pobreza de patrimonio* (basic needs poverty): in addition to food, health care, and education, the inability to satisfy other basic needs, such as clothing and shoes, housing, gas and electricity, house rent, and transportation. For more details on this classification of the levels of poverty, see SEDESOL 2002.
- **lower-middle-class households**, those that SEDESOL defines as “not poor,” but whose per capita income is in the seventh or lower percentile of the income distribution.
- **middle-class households**, those that SEDESOL defines “not poor” and whose per capita income falls in the eighth and ninth wealth percentiles; and
- **upper-middle and upper-class households**, those that SEDESOL defines “not poor,” and which are in the tenth income percentile.

Table 3.5 Remittance receiving households by town size, Mexico, 2002.

Town's size	Total Households	Non recipient		Recipient		Index of Reception
Total	100%	23,216,720	100%	1,401,986	100%	6.0
Urban (> 15 thousand inhabitants)	63.5%	15,154,853	65.3%	489,998	35.0%	3.2
Rural (< 15 thousand inhabitants)	36.5%	8,061,867	34.7%	911,988	65.0%	11.3

Source: Own calculations based on ENIGH, 2002

Remittance-receiving households again tend to be concentrated in the lower-income strata. Of the recipient households, 56.3% are classified as poor, whereas another 21.3% are middle income, compared to 52.9% and 17%, respectively, of all Mexican households. We find a notable difference for upper- and upper-middle-class households: Although they account for 10% of all Mexican households, they represent only 5.8% of all the remittance-receiving households. Similarly, middle-class households represent 20% of all Mexican households, but of all remittance-receiving households, only 16.6% are middle class. We can thus claim that the receipt of remittances is inversely related to the socioeconomic level of the households, so that there is a much higher propensity to receive remittances among the lower strata, a characteristic that diminishes as social status increases (table 3.6)

Table 3.6 Remittances by recipient and social stratum

Social stratum	Total Households	Non recipient		Recipient		Index of Reception
Total	100%	23,216,720	100%	1,401,986	100%	6.0
Poor	52.9%	12,245,029	52.7%	789,043	56.3%	6.4
Low middle class	17.0%	3,886,249	16.7%	298,971	21.3%	7.7
Middle class	20.1%	4,706,790	20.3%	232,613	16.6%	4.9
High or middle-high class	10.0%	2,378,652	10.2%	81,359	5.8%	3.4

Source: Own calculation based on ENIGH, 2002.

In other words, the ENIGH data confirm the fact that the remittance-receiving households tend to be poor households located in rural areas. By the same token, we can assume that the greater social vulnerability and economic precariousness that characterizes both the condition of poverty and the rural location may be associated with receiving remittances. Thus, it is possible to claim that these constitute a pull factor increasing the likelihood of remittances.

Likewise, it is to be expected that the potential effects and benefits generated by remittances should be larger and more concentrated in rural and poor households.

3.4.2 Remittances, income, and savings capacity in migrant households

In order to understand and measure the role of remittances in reducing poverty in Mexico, it is necessary first to estimate the specific weight and define the economic significance of remittances in terms of the structure of family income, that is, establish how important remittances are in comparison to other sources of income as well as their nature and significance for the household economy.

As noted above, we view remittances as the mechanism that migrants use to transfer income to their families in Mexico. Independent of the size of the transfer, remittances are as important and have the same sorts of impacts that any other earnings category might have, as all serve to finance the material reproduction of the family. This characteristic is confirmed when we analyze the household budget and income structure. Remittances are not only an additional source of family income, they tend to be the principal source of income, which helps to create a different income structure than is found in non-remittance receiving households (table 3.7). In the latter, the principal source of family income is work earnings, which averaged US\$466 per month per household in 2002, representing 65.9% of total family income. Income from entrepreneurial activities averaged \$160 monthly, or 22.5% of the family income. These income categories together are the most important, constituting almost 90% of the family income in non-remittance receiving households. In remittance-receiving households, on the other hand, work earnings are much less, only about \$132 per month, a figure that is 70% less than the average earnings in other households. Work earnings contribute less than 30% of the total family income, or almost 40 percentage points less than in the non-remittance-receiving households. Entrepreneurial income amounts to only about \$61 per month, less than 14% of the total family income. However, remittances are the main source of income, averaging almost \$216 per month, or 46.9% of total family income.

Table 3.7 Average monthly household income by remittance recipient and income stratum (dollars at 2002 prices)

	Total Households		Non Recipient		Recipient	
	Value	%	Value	%	Value	%
Total	692.7	100%	706.8	100%	459.8	100%
Remunerations	446.6	64.5%	465.6	65.9%	131.7	28.6%
Remittances	12.3	1.8%	0.0	0.0%	215.9	46.9%
Businesses' profits	153.8	22.2%	159.4	22.5%	61.5	13.4%
Properties' hires	17.8	2.6%	18.7	2.6%	3.6	0.8%
National transfers	16.9	2.4%	17.0	2.4%	15.5	3.4%
Other incomes	45.3	6.5%	46.2	6.5%	31.7	6.9%

Source: Own calculations based on ENIGH 2002

It is worth noting that the composition of family income, and in particular, the contribution represented by remittances, is practically the same across the various social strata. Indeed, at all socioeconomic levels, remittances constitute the main source of income in recipient households, contributing between 43% (middle class) and 53% (upper middle and upper) of family income (table 3.8).¹⁸

Table 3.8 Distribution of household income by income stratum and remittance reception, Mexico, 2002.

	Poor		Low middle class		Middle class		Middle-high and high class	
	Non recipient	Recipient	Non recipient	Recipient	Non recipient	Recipient	Non recipient	Recipient
Total	100%	100%	100%	100%	100%	100%	100%	100%
Remunerations	69.1%	29.3%	68.0%	27.5%	67.7%	32.5%	61.2%	21.1%
Remittances	0.0%	46.6%	0.0%	48.4%	0.0%	43.1%	0.0%	52.9%
Profits	20.9%	13.3%	24.3%	11.7%	23.5%	16.3%	30.0%	16.1%
Other	10.1%	10.7%	7.7%	12.3%	8.8%	8.1%	8.8%	9.9%

Source: Own calculation based on ENIGH 2002.

Thus, we can claim that regardless of the level of income, social stratum, or area of residence, in recipient households, remittances not only constitute the principal source of family income, they also occupy essentially the same place and the same function that is normally reserved for work income in other households. Indeed, the low level of work income registered in remittance-

¹⁸ A similar situation occurs in the case of rural and urban households. In rural remittance-receiving households, remittances contribute 52% of the total family income, whereas in urban remittance-receiving households, the figure is 42%.

receiving households is actually the product of a statistical distortion caused by how this income is measured. Under the rubric of income, the ENIGH includes only wages, salaries, benefits, and other work-related income *originating in Mexico*. Wages that migrant workers receive in the United States are not counted, except for that fraction that is sent to their families in Mexico, but that fraction is not categorized as work income but rather as a special item within the transfer category. In other words, for methodological reasons, remittances are not measured nor are they accounted for as a category of earned income; instead, they are classified as a transfer between family members, which, in this case, happens to be an international transfer.¹⁹

If remittances rather than being a family transfer are actually earned income that constitutes a special category under work income, then there is no logical reason to suppose that this money should have any impact on reducing poverty. Indeed, in only two scenarios would it be possible for remittances to have such an effect. One would be if the remittance amounts in each household were significantly higher than the average work income earned in Mexico, for the respective social strata and location (urban or rural). The other would be in remittance-receiving households, if the level of work income earned in Mexico were similar to the level of work income in the non-recipient households. In both cases, remittances would then act as a complement to family income, that is, as an extraordinary income that could sustain a process of upward social mobility.

The data shown in table 3.9, however, demonstrate the opposite. The amount of remittances, by social stratum and locality, is equal to or less than the average work income in Mexico and the level of work income in the recipient households is significantly less than that received in the non-recipient households. In other words, remittances are not a type of extraordinary income;

¹⁹ It is worth noting, however, that if the same migrant, rather than going to the United States to work and earn a wage, had instead migrated and gotten that same salary in any other part of Mexico, the money the migrant would have sent home would not have been counted as a family transfer, basically, because in this case, that migrant would be considered as a resident of the household, and as such, his or her income would be considered regular household income.

instead, they are resources that replace for other categories of income, specifically, the ordinary and regular income that flows into non-recipient households.

Indeed, for each social stratum and urban or rural locality, if we add the value of the income earned in Mexico to the remittances received (which are simply migrants' wages), the total is similar to the amount of earned income in non-recipient households. This simple calculation shows that indeed, remittances are wage income of an international origin. As such, remittances compensate for the low level of earned income that exists in remittance-receiving households. In those households, the low level of work income is due precisely to the fact that the main source of work and work-related income is located in the United States, not in Mexico.

Table 3.9 Average per capita income by remittance reception and social stratum

Social stratum	Households w/o remittances	Households with remittances	Sig. level
Extremely Poor	534	505	*
Poor in assets	1201	1083	**
Low middle class	1802	1695	**
Middle class	3350	3119	**
Middle-high and High class	10483	8112	**
Town's size			
Urban	7470	5909	**
Rural	3362	3460	

* p < 0.05 ** p < 0.01

Source: Own calculations based on ENIGH 2002

The economic significance of remittances as a source of income is also reflected in their weight and impact in relation to the level of income, expenses, and savings capacity in recipient households in comparison to non-recipient households (see Table 3.9). First, there is the paradox that although remittances contribute almost half of family income in recipient households, the level of per capita income in those households is systematically lower (between 5% and 20% less) than it is in non-recipient households, with the case of poor

(*pobres de patrimonio*) households, where the difference is approximately 10%, being particularly notable. A similar situation exists in urban areas, where per capita income for recipient households is 20% less than in non-recipient households.²⁰ Indeed, only in the case of rural households is the difference in per capita income not statistically significant.

Remittances constitute 47% of family income, an insufficient amount to cause a significant improvement in the economic situation of the recipient households. In other words, although remittances clearly can improve the standard of living in populations that receive them, they are insufficient to reverse the economic and structural vulnerability that affects the recipient households in Mexico.

A second point that confirms the hypothesis that remittances are earned income involves the level and composition of household expenses. On one hand, in relation to the overall volume of expenditures, only in middle-class households is there a statistically significant difference in the level of expenditure, in favor of the non-recipient households. For all other social strata, the level of per capita expenditure in the recipient households is not statistically different from that prevailing in non-recipient households.

Table 3.10 Household expenditures in remittance and non-remittance recipients by income stratum, Mexico, 2002.

Expense item	Poor households			Low middle class households			Middle class households			High and middle-high class households		
	Households without Remittances	Households with Remittances	Sig	Households without Remittances	Households with Remittances	Sig	Households without Remittances	Households with Remittances	Sig	Households without Remittances	Households with Remittances	Sig
Total	884.6	913.3		1,612.6	1,498.2		2,874.1	2,639.3	*	8,326.0	6,716.0	
Food	372.5	337.6 **		592.0	519.9 **		858.4	864.9		1,613.4	1,757.4	
Household equipment and services	58.4	67.7 **		111.2	128.5		219.2	209.6		847.0	1,005.4	
Housing	106.8	95.1		200.3	178.5		374.7	335.2		1,141.6	645.0 *	
Clothing	110.4	106.2		211.2	185.8		351.0	296.9 *		810.4	645.9	
Education	70.7	54.7 *		130.5	77.0 **		358.0	187.2 **		1,278.9	758.0 *	
Health	25.3	80.4 **		54.2	124.2 **		82.4	217.6 **		264.4	345.7	
Transport and Communications	129.3	156.9 *		278.8	228.4 *		548.1	445.5 **		1,921.1	1,354.1	
Other	11.2	14.7		34.6	55.9 *		82.3	82.4		449.1	204.5	

* p < 0.05 ** p < 0.01

Source: Own calculations based on ENIGH 2002

²⁰ In all cases, the differences are statistically significant.

These data shown in table 3.10 let us refute the long-standing, widespread hypothesis that remittance-receiving households would overspend in relation to their economic capacity, misusing the remittance monies by buying luxuries, throwing parties, and spending on an infinite number of things that are not necessities for the household, instead of spending on economically productive uses.

The remittance-receiving households do not spend more or less than what is spent by households that do not receive remittances. There is no waste or misuse of resources. To the contrary, remittances together with other family income is generally destined for the same categories and size of expenditure that is found in any other household at a similar level of income and social stratum.

To the contrary, the small differences that appear relate to the specific expenditure categories, and the general rule is that the remittance-receiving households tend to spend a smaller amount of money. For example, the data show that with the exception of spending on health, the receiving households tend to spend systematically less on education, transportation, and communication.

It is also pertinent to verify that spending on housing (purchasing, renting, or remodeling a home), usually noted as one of the main ways in which resources are spent by remittance receivers, is similar to what is spent by non-recipient households across all social strata. In other words, spending on housing by remittance-receiving households is not statistically different than spending by any other household at a similar income level. Only in the case of upper-middle-class and upper-class households do we see a difference, in favor of non-recipient households. In other words, in the only case where there is a significant difference, the pattern is inverse to what is usually claimed would be found.

Expenditures on health care pose a special case. For all social strata, remittance-receiving households tend to spend more than non-recipient households. However, no one could claim that this represents excessive,

wasted, or luxury spending. To the contrary, this higher rate of spending on health care is due to remittance-receiving households having less access to Mexico's subsidized health-care system. This occurs because the working members of those families are employed in the United States, leaving the relatives remaining in Mexico ineligible for the programs and coverage of the Instituto Mexicano del Seguro Social (Mexican Institute on Social Security).

Finally, a third aspect that confirms our hypothesis that remittances are earned income is reflected in the fact that the remittance-receiving households have an income-expenditure balance and savings capacity that is very similar to that of non-recipient household. In effect, practically across all the social strata and geographic areas of residence, the remittance-receiving households have equal or less savings capacity in comparison to non-recipient households (see table 3.11). This indicates that the savings capacity of households does not seem to be associated with whether or not they receive remittance transfers, but rather it is related to something much simpler and more obvious: their income. In this sense, remittances do not have in and of themselves any intrinsic property that enhances a household's savings capacity. The remittances have the same attributes as those of any other type of income.

Table 3.11. Average household income, expenditures and savings in households with and without remittances by social stratum and town size, Mexico, 2002

	Households without Remittances	Households with Remittances	Sig	Households without Remittances	Households with Remittances	Sig	Households without Remittances	Households with Remittances	Sig
	Income			Expense			Saving		
Social stratum	8,481	5,517 **		7,422	5,095 **		1,059	423 **	
Poor	3,854	3,488 **		3,928	3,842		-74	-354 **	
Low middle class	7,032	5,941 **		6,070	5,086 **		962	855	
Middle class	11,780	9,170 **		10,002	7,433 **		1,778	1,737	
Middle-high and High class	28,140	13,199 **		22,501	10,592 **		5,638	2,607 *	
Town's size	8,481	5,517 **		7,422	5,095 **		1,059	423 **	
Urban	10392	6952 **		9037	6522 **		1359	430 **	
Rural	4889	4747		4387	4328		505	419	

* p < 0.05 ** p < 0.01

Source: Own calculations based on ENIGH 2002

For these reasons, the arguments for channeling to productive projects the savings supposedly generated by remittances not only lack any empirical

basis of support, but they also are discriminatory. This must be challenged, since these arguments establish differences where the data and logic show that what really exists are similarities. In other words, neither statistical evidence nor logical basis exists to justify an argument that savings generated in remittance-receiving households would have an economic and productive potential not attributed to savings generated in non-recipient households. To the contrary, the data show that the level of savings is statistically the same, if it is not actually less in remittance-receiving households. That is why we claim there is discrimination: These arguments propose that migrant households channel their savings to productive ends while non-migrant households are not asked to do the same even though savings capacity is statistically the same.

3.4.3 A further exploration of the relationship between remittances and poverty

To estimate the impact of remittances on poverty reduction, we use an indirect model based on a very simple principle, but one that presents serious difficulties when it comes to measurements. It is an indirect model because it compares directly observed levels of poverty with those that one would expect to find in a hypothetical situation in which remittances were absent.

The ENIGH survey lets us observe and directly measure current levels of poverty, which already include the effect from the receipt of remittances. Thus, regarding the role of remittances, it is a matter of an ex-post measuring of poverty. The difficulty arises when we want to measure the incidence of poverty in an ex-ante situation. What would the level of poverty be in the *absence* of remittances? There is no methodology that lets us know the ex-ante situation directly, especially when we consider the tradition of migrating, which exists in many communities and families. In this context, the sole methodological option is to turn to the construction of indirect models that would allow us to simulate possible scenarios in which remittances would be absent, each based on working suppositions and hypotheses. However, all the simulations are only that, partial reproductions, simple and abstract versions of a complex reality that is varied and dynamic. Thus, any scenario based on a

simulation model contains biases that inevitably imply a distortion of the incidence of poverty, whether in terms of over- or underestimating poverty levels. In that sense, the important thing is not the bias in and of itself, but rather establishing in what manner that bias might distort the estimate of the impact of remittances on the reduction of poverty.

Considering the foregoing, the simulation model that we shall use to estimate the incidence of poverty in the absence of remittances assumes an extreme scenario. It estimates what the income would be for each remittance-receiving household once the income represented by transfers made by family members living abroad is subtracted from the total income realized in the household. That principle can be expressed in this equation:

$$Y_{EXP} = Y_{OBS} - REM$$

Or, put differently:

$$Y_{OBS} = Y_{EXP} + REM$$

where

Y_{OBS}	is observed income
Y_{EXP}	is expected income (what would be received without remittances)
REM	is received remittances

Although simple, this equation underestimates the expected income for the household (and consequently, it overestimates the impact of remittances). Indeed, this estimate of expected income in the absence of remittances does not include the opportunity cost of remittances (in this case, opportunity income or alternative income). In other words, it does not include those activities, resources, and income that would be generated in that household if there was no migration and hence, no remitting. This is the same as saying that in every case, the alternative income to remittances would be nil.

Facing the certainty that remittances are not available, it is logical to assume that each household would likely establish various arrangements and family strategies to generate income. Undoubtedly, that generated income would be less than what would otherwise be obtained from remittances, but in any case, the household income would be somewhat above what we have estimated. Algebraically, we can express this as:

$$Y_{EXP} = Y_{OBS} - REM + Y_{ALT}$$

Or, put differently:

$$Y_{OBS} = Y_{EXP} + (REM - Y_{ALT})$$

where

Y_{ALT} is alternative income generated in the absence of remittances

$(REM - Y_{ALT})$ is the *Remittance Effect* on income level

The simulation model that we use supposes that $Y_{ALT} = 0$, so that the *Remittances Effect* on income is exactly equivalent to the value of the remittances. This supposition, even though it facilitates an estimation of expected income, also entails underestimating that expected income, and, in turn, overestimating the *Remittances Effect* on income level.

Considering these sorts of biases, we can conclude that the simple act of subtracting the remittances from family income nevertheless offers us an adequate estimate of the *minimal* level of expected income in those families if there was no migration and hence no remittances. Similarly, the difference between this minimal level of expected income and directly observed income offers us an adequate estimate of the *maximum* level of the impact of remittances in reducing poverty. In effect, whatever the real effect of remittances may be, it will necessarily be equal or less than the estimate made with an indirect model, since in our estimate of expected income we have not included income that would be generated as an alternative to the remittances. Now, the significance of this (as will be seen below) is that even in the extreme

scenario that overestimates the effect of remittances, these funds still have little impact in terms of reducing levels of poverty.

Considering these biases and limitations, we have estimated the level of expected household income if remittances were absent, based on the principle just mentioned, that is, by subtracting from the total income of each household that fraction representing transfers of income earned abroad. At that level of income, and considering the poverty measures proposed by SEDESOL, as well as the social stratification that we have already outlined, we estimate the social stratum that hypothetically corresponds to remittance-receiving households were they not to receive remittances. Then, we compare that estimate with what is directly observed and estimates using 2002 ENIGH data.

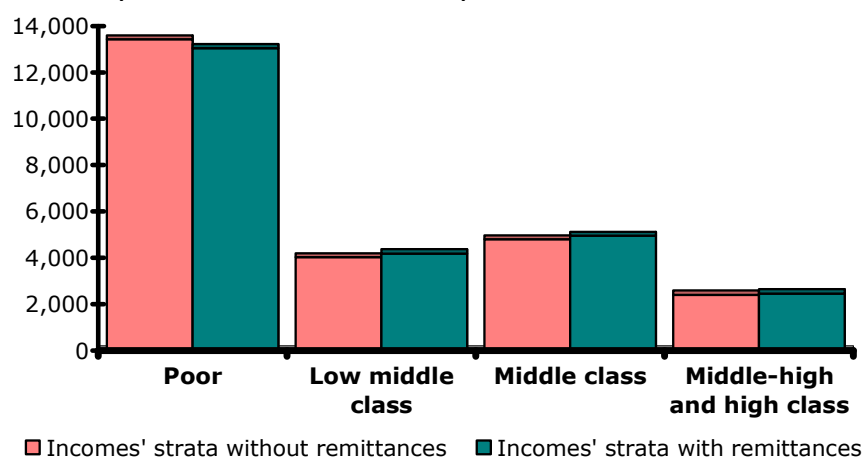
Based on that procedure, we have estimated that in the absence of remittances, the number of households in poverty would reach 13.4 million, or 54.56% of all Mexican households. Thus, this would be Mexico's poverty rate without the intermediation of remittances. Undoubtedly, the real number would have to be less, since in this estimate; we have not included any alternative income that the households would generate in the absence of remittances. If we were to include that alternative income, undoubtedly the number of households below the poverty line would drop (figure 3.5).

If we once again estimate the number of households in poverty, but this time base that on the total income of each household including the remittances that are received from abroad, we find that the figure drops slightly, to 13.03 million poor households, or 52.94% of the total households in Mexico.

With these data, we can then estimate that at an aggregate level, the impact of remittances reduces the incidence of poverty by only 1.52 percentage points at the maximum. That is, at an aggregate level, the presence or absence of remittances has almost no meaningful impact on the poverty level nor does it seem to influence social strata and mobility for the population and their households.²¹

²¹ Székely and Rascón (2004), using a different methodology, arrived at similar results, at least regarding the role of remittances in reducing extreme poverty. These authors estimate that remittances have

Figure 3.5 Household observed income with and without remittances by social stratum in Mexico, 2002.



Source: Own calculations based on ENIGH 2002

Similarly, these data show that remittances would be very inefficient in reducing poverty since they imply a high cost and a very low level of efficacy. Indeed, if we consider that in 2002 remittances to Mexico amounted to approximately US\$10 billion, we can estimate that it would have required around \$6.5 billion in remittances to reduce the incidence of poverty by even one percentage point. Thus, to try to transfer the government's responsibility for reducing poverty (which, we should not forget, is the main objective of social policy, and even established in the United Nation's Millennium Goals) by putting that burden on remittances does not appear to be an intelligent policy. To reduce to 40% the portion of Mexican households living in poverty (in other words, reducing the 2002 poverty level by 13 percentage points) would require an additional US\$85 billion on top of the remittance flows already received, for a grand total of \$95 billion in remittances. To get an idea of what such a volume

contributed only 2% to reducing nutritional poverty and poverty of capabilities, which are the most severe levels of poverty, according to the criteria established by SEDESOL.

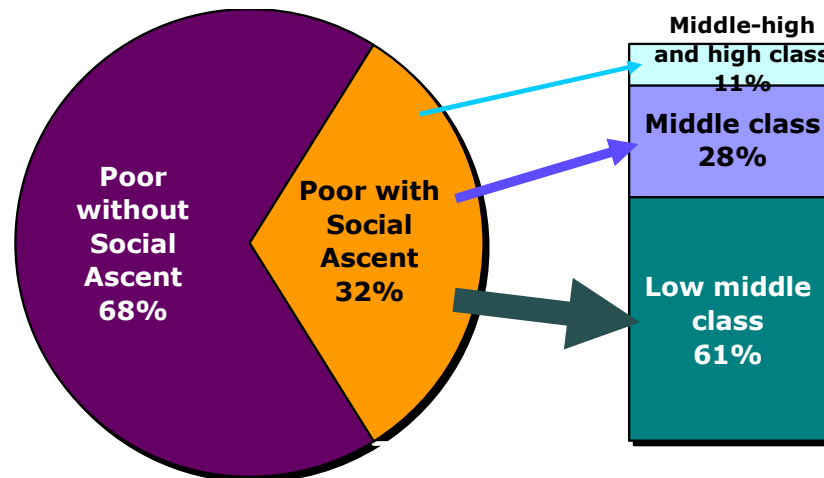
of remittances means, it is enough to say that remittances have to rise from 1.5% of GDP to a little over 14%.²²

Even though the impact of remittances at the aggregate level is not clearly visible, we can assume that it most certainly is felt in the households that receive that money. However, the data show that the situation of poverty does not change substantially. If for each remittance-receiving household, we calculate the expected income in the absence of remittances (the value of remittances subtracted from total income), we will see that of the total of recipient households (almost 1.4 million), almost 83% or approximately 1.16 million would be below the poverty line. It is significant that if we again include the value of the remittances, we see that of those 1.16 million, only 32% (fewer than 375,000 households) receive enough remittance money to experience social mobility, so that the level of income in those households would be enough to put them above the poverty line, as defined by SEDESOL.

In contrast, for the remaining 68% (more than two out of every three remittance-receiving households in poverty), the funds are insufficient for social mobility. In those cases, the quantitative value of the remittances is insufficient to sustain a qualitative change in the economic level and standards of living in these households. Similarly, of the almost 375,000 recipient households that have, according to this model, experienced some social mobility as a result of receiving remittances, almost 230,000 households (61%) experienced only slight mobility, taking them from poverty into the lower-middle class (figure 3.6).

²² It is interesting to verify, however, that in those countries where remittances have reached such a level of relative importance (such as El Salvador, 14%; the Dominican Republic, 12%; and Honduras and Nicaragua, both 10%) the incidence of poverty has not declined, and it remains at levels that are as high as 70% of the overall population (the case for Honduras and Nicaragua). In other words, the increase in the volume of remittances is insufficient to achieve the hoped-for effect in reducing poverty. This confirms that the Remittance-Poverty relationship is more complex than we commonly suppose, and there remain large gaps in our understanding of that relationship (Paz et al. 2004; Cortina et al. 2004).

Figure 3.6 Effect of remittances on the mobility of the poor



Source: Own calculations based on ENIGH 2002

It is also a matter of a very unstable social mobility, given that the income per capita is, on average, only 20% above the poverty line, as defined by SEDESOL. In most cases, remittances do not lead to sustained social mobility of the type that would entail a significant reduction in poverty for the recipient households. When the remittances do reduce poverty, it nonetheless results in only a very limited social advancement. Thus, this change is not exempt from vulnerability and precariousness, and it might reverse at any moment, sending the household back into poverty.

3.5 Conclusions

Remittances are undoubtedly an important source of income for recipient families. Coupled with the magnitude of remittance flows in recent years, we should not be surprised at the optimism that exists in the discourses of national governments and international organizations. It is common to read reports from these organizations and to listen to declarations of government officials touting the significant contributions remittances make to reducing

poverty, promoting development, and increasing family well-being, among many other supposed benefits.

However, when examined in detail, even the reports of those same institutions reveal that this optimism is based more on a set of good wishes and best intentions than on statistical data and empirical evidence. Using data from the Mexican case, this chapter has tried to provide a critical—not a pessimistic—view of the role and impact of remittances. We have maintained that because remittances essentially represent earned income, they have a very limited and restricted impact on development and reducing poverty. They can contribute to improving the standard of living of the recipient households, but they are far from being a strategy that would overcome and resolve the structural problems that perpetuate poverty.

Similarly, in terms of promoting development, the impact is fundamentally confined to the multiplier effects of the remittances, which are neither qualitatively nor quantitatively different from any other component of family income. We must not forget that the multiplier effect of income does not lie with the income itself, but rather in the use that is made of that income, that is, in the expenditures it finances.

Finally, the portion of remittances destined for either community or private investment continues to be very low. Similarly, the Three-for-One-style programs that seek to promote investment by migrants in productive projects have as yet had only slight impacts, because of the small volume of money that is managed in this type of project, among other factors.

Added to these limitations for promoting local development and well-being of the recipient families is another important factor. Remittances, at heart, are markedly connected to social class. Not only are they earned income, but they also represent wages of workers who are employed in highly vulnerable and precarious jobs in the United States combined with being in a social condition of poverty, marginalization, and vulnerability in Mexico. In other words, remittances flow from precarious and vulnerable workers to their families who live in poverty and are socially marginalized. In this context, it is not unusual that, on one hand, remittances essentially are used for household

consumption, contributing to the maintenance of a minimal level of existence, while, on the other hand, the flows are not in amounts or quantities necessary to promote a true process of social mobility.

Indeed, the annual volume for remittances (US\$17 billion in 2005, according to World Bank estimates) in reality is a monetary illusion created by national accounting methods. Remittances have never existed in such a volume. What does exist, however, are millions of small, periodic, and recurring transfers. For example, in 2002, each remittance-receiving household is estimated to have gotten an average of US\$200 per month, which represents a flow of less than US\$55 per capita. The per capita poverty line defined by SEDESOL in 2002 was US\$93 per month in rural areas and US\$140 per month in urban areas. In that context, the impact in terms of development (productive investment, social infrastructure) and well-being for the population (poverty reduction, social mobility) is limited to what can be realized with those few dollars that are received every month.

In summary, this low monthly amount per transfer that each family receives lets us understand the economic and social character and significance of remittances. On the one hand, they are wages, which like any other, are destined for consumption by the family. On the other hand, the small average amount per recipient household also indicates that remittances involve primarily families and workers with few resources, people who are immersed in situations of social vulnerability and economic precariousness. These are the poor classes, with many needs, and remittances can help to ease that poverty, but they are in no way able to vanquish it.

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CHAPTER 4: A MULTIPLIER ANALYSIS OF REMITTANCES IN THE MEXICAN ECONOMY

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SUNY Cortland

4.1 Introduction

Planning models often are based on the input-output methods developed by Leontief (1941). Social Accounting Matrices (SAM) extend the analysis of intersectoral flows in the production accounts to government, financial and household sectors. On the one hand, they show the structure of production, the distribution of value added among the factors of production and the distribution of income among households. On the other hand, they force reconciliation with the system of national accounts.

In the 1950s, development economists were generally concerned with the process of industrialization. Some economists such as Nurske (1953) argued for a strategy of “balanced growth”, while others such as Hirschman (1958) argued that a key characteristic of developing economies is their weak inter-industrial linkages, and hence the best strategy is to target the industry with the most linkages. Agriculture was seen as a static sector, either as a provider of “surplus” labor or as a supplier of basic commodities for the industrial sector. In the 1960s a concern with issues of income distribution, poverty and inequality led to a greater emphasis on the agricultural sector. Johnston and Mellor (1961) argued that as the demand for food products rises in the process of economic development, the agricultural sector could play an important role in the process of industrialization. Furthermore, they also emphasized the role of agricultural income as a stimulus to industrialization in its own right. As stated by Sadoulet and de Janvry (1995), “technically, extension of the concept of linkage to include income and final consumption effects was based on the extension of the input-output matrix to the SAM.”

During the last fifteen years, the construction of social accounting matrices has been used to examine the distributional aspects of the process of economic growth. SAMs were designed to “link together in a coherent and comprehensive manner data of a more or less disaggregated nature with

regard to different aspects of the economic process.”¹ In recent years planning models have not been widely used and the data requirements for such modeling is lacking. Mexico has only recently updated its input-output matrix which is the basis for a SAM construction. This has in part led researchers to use SAM analysis for the study of village economies where the data requirements are significantly lower and collected directly from field studies. In particular, the work of Taylor and Adelman (1991) has shown ways to incorporate remittances and their effects on the village economy. In this chapter, we are unable to use a more recent SAM for Mexico because there is simply no data available. Thus, this chapter reproduces earlier SAM analysis to highlight the complex linkages within and between production, household incomes, and household expenditures in rural and urban areas as a result of an inflow of remittances at the national level.

4.2 Structure of Social Accounting Matrices (SAMs)

In general, there are six common types of accounts in the SAM: production activities, commodities, and factor accounts; the current account of the domestic institutions (households, firms and government); the capital account; and the rest of the world account. The number of subdivisions within these accounts depends on the objective of the analysis.

The analysis of social accounting matrix multipliers is based on the partition of accounts into endogenous and exogenous accounts. The basic criteria for separation into these account is income. Endogenous accounts are those for which changes in the level of expenditure follow a change in income. Exogenous accounts are those for which changes in the level of expenditure are independent of income.²

¹ Alarcon et al. (1991), pg. 2

² E. Sadoulet and A. de Janvry (1995).

Consider the following partition of a SAM.

Income/ Expenditure	Endogenous	Amount	Exogenous	Amount	Total
Endogenous	T_{nn}	n	T_{nx}	x	$Y_n = n + x$
Exogenous	T_{xn}	l	T_{xx}	t	$Y_x = l + t$
Total	Y'_n		Y'_x		

where,

T_{nn} : A sub-matrix of transactions between endogenous accounts of dimension $n \times n$.

n : Vector of row sums of the matrix $T_{nn} = A_n Y_n$, or $A_n = T_{nn}/Y_n$ where A_n is a matrix of average propensities. Here n is of dimension $n \times 1$.

T_{nx} : A sub-matrix of transactions representing the injection of the exogenous accounts to the endogenous accounts. In this case, the matrix has a $n \times l$ dimension.

x : A vector of row sums of the matrix T_{nx} , and dimension $n \times 1$.

T_{xn} : A sub-matrix of leakages from endogenous to exogenous accounts, dimension $l \times n$.

l : A vector of row sums of the matrix T_{xn} of dimension $l \times 1$.

T_{xx} : A sub-matrix of transactions between exogenous accounts or residual balances of dimension $l \times l$.

t : A vector of row sums of the matrix T_{xx} of dimension $l \times 1$.

Y_n : Total income of endogenous accounts.

Y_x : Total income of exogenous accounts.

A "shock" or "injection" is given by a change in elements of the exogenous account, which are commonly represented by the government, capital and savings accounts. The model solves for the equilibrium level of all the endogenous accounts. All multipliers are demand-driven.

4.3 The Social Accounting Matrix for Mexico

The macroeconomic analysis in this section is based on a Social Accounting Matrix built for Mexico for 1989, which will be referred to as SAM89. The basis for this matrix was the input-output table originally constructed by Vasquez (1993). This input-output (IO) table is a 943X943 matrix with 10,893 non-zero cells which was used by Crowe (1994) to build a social accounting matrix for Mexico for 1989. The characteristics of this SAM matrix for Mexico, which is the basis for this study, are as follows:

- i. There are 73 original production activities based on Mexico's National Accounts in the IO table. The primary sector was further disaggregated into 23 sub-sectors, and therefore there are a total of 96 sectors of production activities. Crowe (1994) aggregated these accounts into 11 production activities.
- ii. The IO table contained only one account representing private consumption, but the National Income Expenditure Survey for 1989 allowed Crowe (1994) to further disaggregate the different institutions into 7 household groups.
- iii. The Rest of the World account in the original IO table was disaggregated into three sub-accounts, namely United States, Canada and other countries. The SAM89 aggregated these sub-accounts into one foreign sector called "rest of the world".
- iv. The original IO table had two factors of production, labor and capital. The labor accounts were subdivided for the SAM89 into 6 categories: urban and rural; and high, low education; plus family labor. The factor capital was represented by one account.

I constructed the final 1989 Mexico SAM Income Flows at *El Colegio de la Frontera Norte*, Tijuana by modifying the 1989 SAM elaborated by Crowe (1994). The main changes made are the aggregation of the agricultural sector into only one sector and the disaggregation of the industrial sector into four different sectors. The aggregation of the agricultural sector is straightforward but the subdivision of the industrial sector required information about

household expenditures from these sectors. Wallace and Ramirez (1995) used the 1989 Household Income and Expenditure Survey to estimate a complete system of demand equations to take into account consistently the mutual interdependence of large numbers of commodities in the choices made by consumers. They used the Linear Expenditure System (LES) developed by Stone (1954) to represent the Mexican demand system by households. Based on the LES used by Wallace and Ramirez (1995), household consumption for the four industrial subdivisions was estimated.

The 1989 Mexico SAM Income Flows matrix (SAM89) is a 35X35 square matrix with 32 endogenous accounts and 3 exogenous accounts. The composition of the 1989 Mexico SAM Income flows is as follows:

Endogenous Accounts

Activities: There are 9 production activities.

AGRICULT Agriculture, forestry, game and fishing.

LIVESTOCK Livestock and other animal production.

RESNOREN Non-renewable resources, petroleum, and minerals.

FOODPRO Processed food.

TEXMADP Textile, wood and paper including printing.

QUIMDER Chemical products and derivatives.

OTRASIND Other manufacturing industries.

ELECAUT Home electrical appliances, automobiles and other small manufacturing production.

SERVCOMM Communal and private services including construction, electricity, gas and water.

Commodities: There are 9 commodity groups with the same classification as the production activities.

Factors of Production: There are 7 factors of production.

CAPURBAN Urban capital.

CAPRURAL Rural capital.

LABURBLE Urban labor with low education.

LABURBHE Urban labor with high education.

LABRURLE Rural labor with low education.

LABRURHE Rural labor with high education.

FAMILY Family labor.

Institutions: There are 7 households groups.³

URBWKLE Urban worker with low education.

URBWKHE Urban worker with high education.

URBBUS Urban business.

AGWKLE Rural worker with low education.

AGWKHE Rural worker with high education.

AGBUS Rural business.

CAMPESINO Campesino (small agricultural owners and direct agricultural workers (Who are also self-employed)).

Exogenous Accounts

GOVT Government.

CAPITAL Capital.

RESTWORLD Rest of the world.

4.3.1. Data Sources

The SAM 1989 was constructed using primarily four sources: the 1989 input-output table, the Commerce Department report for indirect taxes by economic activity, the 1989 fiscal budget, and the 1989 Annual Government Report. For the purposes of this study, several of the following data sources were also consulted: The National Survey of Migration flows, the National Income-Expenditure Survey of 1984, 1989 and 1994, the Mexican Migration Project, 1995, *Banco de Mexico* Annual Reports plus industrial and employment surveys.

The basic assumptions of traditional SAM models are the following:

- i. The expenditure coefficients are fixed; that is, the share of income in the different expenditure categories is constant and thus the income elasticities are one. In other words, the marginal and the average propensities to consume are the same.

³ The household groups correspond to socio-economic groups with expected different consumption and savings patterns and it mostly follows standard classifications for Mexico as found in Gibson, Lustig and L. Taylor (1982) and Wallace and Ramirez (1995).

- ii. The production coefficients are fixed, as in input-output models, which imply that the capital/labor ratios are constant and thus there is no input substitution.
- iii. Prices are fixed reflecting the assumption that there is excess capacity throughout the economy.

These assumptions of a SAM-type model need to be discussed because they may not always hold, particularly in the context of developing countries. SAM-based (fixed-price) models highlight complex income linkages among sectors, including consumption linkages, which are useful for assessing the short-run impacts of exogenous shocks on an economy on a very short run horizon.⁴ Sensitivity analysis will be performed by comparing the results under different assumptions.

The first assumption is that the expenditure coefficients are fixed; that is, the share of income in the different expenditure categories is fixed and thus the income elasticities are one. In other words, it is implied that the marginal and the average propensities to consume are the same. The assumption of unitary expenditure elasticities is obviously one limitation of the SAMs. In this chapter, however, we allow the expenditure elasticities to vary with income for all household groups, thereby allowing them to adjust their expenditure patterns in response to income changes. In essence, the innovation here is to introduce the use of non-unitary expenditure elasticities. This is done by substituting the marginal expenditure propensities for the average expenditure propensities. Marginal expenditure propensities are calculated from the Linear Expenditure System (LES) as developed by Stone (1954). For the case of Mexico, Wallace and Ramirez (1995) recently estimated a LES from the Income-Expenditure Survey of 1989. Their classification of households and activities is not exactly the same as the one used in this study; therefore, the following approximation

⁴ Taylor, J Edward and I. Adelman (1991), "Multisectorial Models and Structural Adjustment: New Evidence from Mexico" in *Journal of Development Studies*, vol.28, No.1, October 1991, pp.154-163.

was made to avoid the cost of estimating a complete system of demand equations such as an LES:⁵

Households

<u>Variable name</u>	<u>SAM definition</u>	<u>LES definition</u>
URBWKLE	Urban worker, low education	Urban marginal workers
URBWKHE	Urban worker, high education	Urban workers
URBBUS	Urban business	Urban business
AGWKLE	Rural worker, low education	Rural wage laborers
AGWKHE	Rural worker, high education	Rural business
AGBUS	Rural business	Rural business
CAMPESIN	<i>Campesino</i>	<i>Campesino</i>

Production Activities

<u>Variable name</u>	<u>SAM definition</u>	<u>LES definition</u>
AGRICULT	Agriculture	Agriculture
LIVESTOCK	Agriculture	Agriculture
RESNOREN	Non-renewable resources	Chemicals
FOODPRO	Processed food	Processed food
TEXMADP	Textile, wood & paper	Textile, wood & paper
QUIMDER	Chemical products	Chemicals
OTRAIND	Other industry	Other industry
ELECAUT	Appliances, automobiles & small manufacturing production	Machinery and automobiles
SERVCOMM	Services	Services

With the exception of livestock, which was treated as part of the agricultural sector, and the non-renewable resources account, that was combined together with the Chemical and Petroleum accounts, production activities are similar in both models. For the household sector, the accounts also correspond in both models with the exception of rural workers with high education, which were treated as part of the rural business account. Appendix 1 contains a full description of all these accounts. Table 4.1 below contains a summary of the average and marginal expenditure propensities.

⁵ This approximation was suggested by Dr. Antonio Yunez at El Colegio de Mexico who used a similar approach in his work with Barceinas (1995).

Table 4.1 Household Average and Marginal Expenditure Propensities, Mexico, 1989

Average Expenditure Propensities

	URBWKLE a	URBWKHE B	URBBUS c	AGWKLE D	AGWKHE e	AGBUS F	CAMPESIN g
1. AGRICULT	0.046	0.036	0.035	0.177	0.155	0.170	0.188
2. LIVESTOCK	0.019	0.016	0.015	0.018	0.019	0.018	0.018
3. RESNOREN	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4. FOODPRO	0.192	0.174	0.130	0.157	0.150	0.153	0.160
5. TEXMADP	0.051	0.055	0.052	0.076	0.103	0.082	0.075
6. QUIMDER	0.036	0.037	0.029	0.062	0.058	0.055	0.058
7. OTRASIND	0.011	0.013	0.032	0.014	0.002	0.022	0.014
8. ELECAUT	0.015	0.014	0.009	0.025	0.031	0.024	0.024
9. SERVCOM	0.431	0.485	0.506	0.152	0.171	0.162	0.142

Marginal Expenditure Propensities

	URBWKLE a	URBWKHE B	URBBUS c	AGWKLE D	AGWKHE e	AGBUS F	CAMPESIN g
1. AGRICULT	0.050	0.045	0.007	0.060	0.015	0.015	0.07
2. LIVESTOCK	0.050	0.045	0.007	0.060	0.015	0.015	0.07
3. RESNOREN	0.082	0.070	0.006	0.065	0.015	0.015	0.062
4. FOODPRO	0.138	0.099	0.003	0.158	0.028	0.028	0.065
5. TEXMADP	0.128	0.124	0.012	0.092	0.029	0.029	0.118
6. QUIMDER	0.082	0.070	0.006	0.065	0.015	0.015	0.062
7. OTRASIND	0.027	0.026	0.006	0.027	0.002	0.002	0.022
8. ELECAUT	0.055	0.058	0.018	0.043	0.017	0.017	0.072
9. SERVCOM	0.361	0.384	0.185	0.265	0.251	0.251	0.277

In general, Table 4.1 shows that the marginal propensities to consume from the food-processing sector for the lower income groups (urban and rural workers with low education) are higher than those for the higher income groups (urban and rural workers with high education and rural and urban business). This pattern may be expected but it is not clearly shown by looking only at the average expenditure propensities. In the same fashion, there is also an improvement in the treatment of non-renewable resources since the average expenditure propensities were zero while the marginal propensities were non-zero.

In their seminal work, Pyatt and Round (1979) introduced the idea of fixed-price multipliers in which they model the behavior of economic agents that can respond to income changes with changes in their expenditure patterns. Under the assumption that prices are fixed and starting with the original equation (1) below:

$$Yn = n + x \quad (1)$$

One can obtain: $dYn = dn + dx \quad (2)$

$$\begin{aligned} &= Cn \, dyn + dx \\ &= (I - Cn)^{-1} dx \\ &= Mc \, dx \end{aligned} \quad (3)$$

where Mc is a matrix of marginal expenditure propensities with each element c_{ij} as the partial derivative of the i th element of n with respect to the j th element of Yn .

If $(I - Cn)^{-1}$ exists, then equation (3) shows how elements of the endogenous accounts change as a result of changes in exogenous injections.

Now we can relax the assumption that income elasticities are equal to one, which is implied if one assumes that the average and marginal expenditure propensities are the same. Thus in the simulations, a second set of SAM multipliers will be estimated based on this modification and the results will be compared with simulations done under different assumptions.

The second assumption is that production coefficients are fixed, as in input-output models, which implies that the capital/labor ratios are fixed and thus there is no input substitution. Furthermore, production activities are endogenous and demand-driven, reflecting the assumed existence of excess capacity in the economy. This is clearly unrealistic for some sectors such as agriculture and livestock in the short-run. Here, we relax the assumption by proposing that the agricultural and livestock sectors are supply-constrained. A third set of SAM multipliers will also be estimated adding this new modification.

Finally, with regard to fixed prices. SAM-based models “remain fundamentally applicable in situations characteristic of the Keynesian environment of a fix-price model, with excess production capacity in most sectors and absence of substitution.”⁶ Therefore, they are not appropriate in cases where there are major price readjustments. Nevertheless, the argument made here is that Mexico, at least in 1989, can be characterized as a

⁶ Sadoulet, E. and A. de Janvry (1995), Quantitative Development Policy Analysis, The John Hopkins University Press, Baltimore, US., pp.295.

Keynesian type environment. The 1980s is known as the “lost decade” in Latin America because of low or even negative rates of economic growth for most countries. This is the case for Mexico even if one looks at the period of 1986-1995 that includes the recovery years. During this period the volume of GDP only grew on average by 1.7 percent (OECD:1997). The inflation rate was clearly on the decline as shown by the GDP deflator and the consumer price index. This makes it somewhat more tenable to assume excess capacity, and a simple inflation/unemployment trade-off. The following table shows the behavior of the GDP deflator and the CPI index for the latter part of the 1980s.

Table 4.2 GDP Deflator and CPI index, 1985-89

Year	GDP Deflator	CPI index
1985	56.5	63.7
1986	73.6	105.7
1987	139.7	159.1
1988	99.5	51.7
1989	25.8	19.7

Source: OECD, 1997

The above discussion of the assumptions of the SAM will assist us in the simulations by providing a range of results based on the partial relaxation of some of these assumptions. The results below will be presented stating the particular assumption being modified.

4.3.2 The SAM model

Pyatt (1988) stated, “There is only one fundamental law of economics: for every income there is a corresponding outlay or expenditure.” A social accounting matrix, or SAM, is a simple way to represent this law. The SAM is a square matrix designed to provide a record of transactions using a single-entry form of bookkeeping.

We can write the total income received by the endogenous accounts as Y_n , which is,

$$Y_n = n + x \quad (1)$$

The elements of the matrix of endogenous accounts, T_{nn} can be expressed as average expenditure propensities by dividing each element by the respective column total, thus:

$$T_{nn} = A_n Y_n \quad (2)$$

By introducing the matrix of average propensities A_n , we can write, $n = A_n Y_n$ or,

$$Y_n = A_n Y_n + x \quad (3)$$

Solving for Y_n as a function of x , we have:

$$Y_n - A_n Y_n = x$$

$$Y_n (I - A_n) = x$$

$$Y_n = (I - A_n)^{-1} x$$

where $(I - A_n)^{-1}$ is a matrix of multipliers M_a or the accounting multiplier matrix, which can be written as,

$$Y_n = M_a X \quad (4)$$

Equation (4) relates how the income level of the factor of production accounts, the household sector accounts and the production accounts are endogenously determined as a function of the exogenous “injections”. **M_a** is a matrix of accounting multipliers. Each element of this matrix m_{ij} constitutes the direct and indirect effect of a one-unit increment in the exogenous account j on the i -th endogenous account.

An important contribution has been to disaggregate this effect to analyze the process underlying the multiplier effects captured in the SAM multiplier matrix. Mathematically, one can disaggregate the accounting multiplier matrix into three useful components.

$$Y_n = M_a^3 M_a^2 M_a^1 x \quad (5)$$

where: Ma1 is a intra-group effect
 Ma2 is a extra-group effect
 Ma3 is a inter-group effect

The intra-group or transfer effects capture the multiplier effects of one group of endogenous accounts on itself and it is independent of the closed-loop nature of the system. The extra-group effects capture the cross effects of the multiplier process by which an injection into one part of the system has repercussions on other parts. The inter-group effect captures the full circular effects of an income injection going through the system and back to its point of origin.

There is no unique way to organize the data in a SAM. In the case of remittances, they can be recorded as received by the labor factor or by the household depending on what information is available. The household accounts were constructed on the basis of the principal occupation of the head of the household, his position in such occupation and the geographical location of the household (urban and rural). The purpose was to create groups of households that have similar responses to policy changes. In order to see more fully the impact of remittances on industrial growth, the industrial sector in the production accounts was disaggregated into five sectors. It is also assumed that the rural and urban business sectors did not directly receive remittances. After a suitable disaggregation of the flow of remittances into the appropriate endogenous household accounts in the Social Accounting Matrix, the analysis of multipliers will be applied to examine the effects on output, income and employment from an exogenous injection. In this case, the exogenous injection is the amount of remittances. Thus the output and employment multipliers obtained highlight the full effects beyond the initial direct expenditures of remittances.

4.4. Empirical Results

The actual Social Accounting Matrix for Mexico for 1989 used in this study can be requested from the author. The agricultural sector shows very

weak backward linkages but strong forward linkages with the rest of the Mexican economy. The demand for other domestically produced inputs by the agricultural sector is about 17 percent of total agricultural demand. About 46 percent of agricultural output is absorbed by intermediate demand and 54 percent is absorbed by household consumption demand. The strongest intermediate demand for agricultural output is by the food-processing sector. Most likely this consists of demand for maize by tortilla processors (Adelman and Taylor:1990).

Among the industrial sectors, the food-processing sector is of some interest because most of remittances are spent on food items. The food-processing sector seems to show strong backward linkages but weak forward linkages with the rest of the Mexican economy. The demand for other domestically produced inputs by the food-processing sector is about 63 percent of its total demand while the intermediate demand for this sector's output is only 17 percent of other sectors' demand and 71 percent of food-processing output being absorbed by this same sector.

The inter-sectoral linkages are shown in Table 4.3. The agricultural sector shows strong backward SAM linkages mainly due to the effect on household incomes from the increased demand for agricultural products. The agricultural sector has the highest induced income effect (\$1.73) from the increase of \$1 dollar in this sector's demand. The livestock sector also has strong SAM linkages. A \$1 increase in the demand for livestock products leads to a \$2.19 increase in the demand for intermediate inputs from the other sectors and a \$1.59 increase in household incomes. This is a significant effect in the case of international migration because Mexican migrants have been found to invest in livestock. A recent econometric study in a Mexican village shows that initial livestock holdings make a significant positive contribution to current income (Taylor and Wyatt:1996). As is shown in Table 4.3, even though the induced effects on household income are highest for the urban and rural business group, the *campesino* group also benefits by about 32 cents for each \$1 increase in demand for livestock products.

Table 4.3 1989 Mexico SAM Income Accounting Multiplier Matrix

	AGRICULT	LIVESTOC	RESNORE	FOODPRO	TEXMADP	QUIMDER	OTRASIND	ELECAUT	SERVCOM
Production									
1. AGRICULT	1.2734	0.4178	0.1002	0.3064	0.1514	0.1020	0.1015	0.0881	0.0970
2. LIVESTOCK	0.0834	1.0988	0.0603	0.2695	0.0667	0.0612	0.0569	0.0517	0.0581
3. RESNOREN	0.0288	0.0316	1.1909	0.0270	0.0318	0.0980	0.1259	0.0556	0.0313
4. FOODPRO	0.2966	0.3801	0.2178	1.3749	0.2357	0.2273	0.2061	0.1872	0.2104
5. TEXMADP	0.1711	0.1667	0.1115	0.1421	1.3582	0.1483	0.1215	0.1358	0.1247
6. QUIMDER	0.2498	0.2256	0.1324	0.1690	0.2400	1.4300	0.1463	0.1662	0.1403
7. OTRASIND	0.0838	0.0923	0.1116	0.1021	0.0912	0.0983	1.2881	0.1831	0.1070
8. ELECAUT	0.0336	0.0357	0.0227	0.0260	0.0247	0.0228	0.0298	1.1548	0.0292
9. SERVCOM	0.7775	0.8415	0.9453	0.9404	1.0047	1.0288	0.9424	0.9656	1.9693
Commodities									
10. AGRICULT	0.3054	0.4666	0.1119	0.3423	0.1691	0.1139	0.1134	0.0984	0.1083
11. LIVESTOCK	0.0859	0.1018	0.0621	0.2775	0.0687	0.0631	0.0586	0.0533	0.0599
12. RESNOREN	0.0310	0.0341	0.2058	0.0291	0.0343	0.1056	0.1357	0.0600	0.0338
13. FOODPRO	0.3182	0.4077	0.2336	0.4021	0.2528	0.2437	0.2210	0.2008	0.2257
14. TEXMADP	0.1969	0.1918	0.1283	0.1636	0.4122	0.1707	0.1398	0.1562	0.1435
15. QUIMDER	0.3152	0.2847	0.1671	0.2133	0.3028	0.5426	0.1846	0.2098	0.1771
16. OTRASIND	0.1198	0.1319	0.1595	0.1460	0.1304	0.1406	0.4120	0.2618	0.1530
17. ELECAUT	0.0626	0.0665	0.0422	0.0485	0.0461	0.0426	0.0555	0.2887	0.0545
18. SERVCOM	0.8100	0.8767	0.9848	0.9798	1.0468	1.0719	0.9818	1.0060	1.0099
Value Added									
19. CAPURBAN	0.6209	0.6688	1.2525	0.9544	1.1131	1.1005	1.1060	0.9945	1.0993
20. CAPRURAL	0.7209	0.6102	0.0758	0.2614	0.1060	0.0771	0.0753	0.0661	0.0733
21. LABURBLE	0.0956	0.1020	0.1662	0.1314	0.1729	0.1697	0.1696	0.1548	0.1794
22. LABURBHE	0.1290	0.1378	0.2243	0.1774	0.2336	0.2293	0.2288	0.2090	0.2422
23. LABRURLE	0.1143	0.1240	0.0133	0.0476	0.0182	0.0136	0.0132	0.0116	0.0129
24. LABRURHE	0.0259	0.0281	0.0030	0.0108	0.0041	0.0031	0.0030	0.0026	0.0029
25. FAMILY	0.2287	0.1472	0.0216	0.0719	0.0310	0.0220	0.0216	0.0189	0.0209
Household Incomes									
26. URBWKLE	0.0956	0.1020	0.1662	0.1314	0.1729	0.1697	0.1696	0.1548	0.1794
27. URBWKHE	0.1290	0.1378	0.2243	0.1774	0.2336	0.2293	0.2288	0.2090	0.2422
28. URBBUS	0.4092	0.4408	0.8254	0.6290	0.7336	0.7253	0.7289	0.6554	0.7245
29. AGWKLE	0.1180	0.1280	0.0148	0.0498	0.0198	0.0151	0.0147	0.0130	0.0144
30. AGWKHE	0.0259	0.0281	0.0030	0.0108	0.0041	0.0031	0.0030	0.0026	0.0029
31. AGBUS	0.5182	0.4386	0.0545	0.1879	0.0762	0.0554	0.0541	0.0475	0.0527
32. CAMPESINO	0.4325	0.3199	0.0448	0.1468	0.0628	0.0456	0.0447	0.0393	0.0436
Prod. Multiplier	2.9981	3.2900	2.8926	3.3576	3.2045	3.2168	3.0185	2.9881	2.7674
Own Multiplier	1.2734	1.0988	1.1909	1.3749	1.3582	1.4300	1.2881	1.1548	1.9693
Link w/others	1.7247	2.1912	1.7017	1.9827	1.8463	1.7868	1.7304	1.8333	0.7981
Induced Income	1.7285	1.5953	1.3329	1.3331	1.3030	1.2434	1.2438	1.1217	1.2597

Thus, the linkages between the livestock sector and the rest of the Mexican economy are important in the case of Mexican migrants because livestock investment does indeed benefit households in two ways. First,

livestock holdings financed by remittances provide a form of liquid asset that can finance credit or insure against income risk and therefore have a positive effect on production. Second, corroborating evidence from this study show that a \$1 dollar increase in exogenous demand for livestock products generates a \$1.59 increase in household incomes. This additional income further increases consumer demand for other products.

In order to calculate the specific remittance multipliers, a policy experiment under different assumptions was conducted with the 1989 SAM Income Multiplier Matrix. The first simulation to analyze the impact of an inflow of remittances on production and income is done under the traditional assumptions of a SAM-based model. The simulation shown in Table 4.4 enables us to analyze the impact of 5,170 millions of pesos (US \$2,058 mil.) into the Mexican economy as a result of remittances sent by Mexican migrants in the United States.⁷ This simulation is done under the assumptions of unitary elasticities and excess capacity; therefore, we believe this estimate should be interpreted as an upper bound. As can be observed in Table 4.4, real GDP increased by 6,191 millions of pesos (US \$2,464 mil.) which is a 1.34 percent increase in total domestic output. Total national income increased by 10,174 millions of pesos (US \$4,050 mil.) which is approximately a 2.24 percent increase in total income. Under these assumptions, Table 4.4 shows that the agricultural and livestock sector output increases by 1,562.8 millions of pesos (US\$ 622 mil), the industrial sector's output increases by 4,260.1 millions of pesos (US\$ 1,696 mil.), and the service sector's output increases by 5,274.6 millions of pesos (US\$ 2,100 mil.). The highest gross impacts are in the service, food processing and agricultural sectors. The effects on the latter two sectors are what one would expect since these sectors most closely correspond to the spending category (family maintenance) with the greatest percentage out of remittance expenditures. Thus, remittances induced an increase in total production that was 2.14 times the initial transfer.

⁷ To convert these figures to US\$, I used the average 1989 exchange rate of 2.5118 pesos per dollar from the Banco de Mexico Annual Report for 1990.

**Table 4.4 Impact of an inflow of remittances on production and income:
basic results**

	Base values	Shock	Impact X	% change
AGRICULT	44,349.66	-	1,060.82	2.39%
LIVESTOCK	23,952.91	-	501.96	2.10%
RESNOREN	19,724.00	-	128.88	0.65%
FOODPRO	84,774.01	-	1,825.36	2.15%
TEXMADP	48,616.00	-	850.61	1.75%
QUIMDER	54,932.00	-	861.87	1.57%
OTRASIND	55,774.00	-	430.82	0.77%
ELECAUT	38,941.00	-	162.60	0.42%
SERVCOMM	436,282.00	-	5,274.57	1.21%
CAPURBAN	303,464.59	-	3,704.28	1.22%
CAPRURAL	32,564.24	-	754.62	2.32%
LABURBLE	46,713.51	-	575.72	1.23%
LABURBHE	64,194.51	-	777.36	1.21%
LABRURLE	5,678.00	-	130.09	2.29%
LABRURHE	1,289.00	-	29.53	2.29%
FAMILY	9,384.55	-	219.69	2.34%
URBWKLE	58,949.67	1,632.00	2,207.72	3.75%
URBWKHE	80,128.65	1,841.00	2,618.36	3.27%
URBBUS	263,314.00	-	2,441.24	0.93%
AGWKLE	6,715.92	705.00	886.97	13.21%
AGWKHE	1,478.66	287.00	316.53	21.41%
AGBUS	23,409.60	-	542.47	2.32%
CAMPESINO	19,681.94	705.00	1,160.32	5.90%
GOVT	114,262.24	-	1,633.40	1.43%
CAPITAL	108,591.77	-	2,161.07	1.99%
ROW	107,134.80	-	1,375.52	1.28%
Real GDP	463,288.40		6,191.28	1.34%
Total Production	807,345.58		11,097.49	1.37%
HH Income	453,678.44	5,170.00	10,173.61	2.24%

Remittances also induced an increase in total household income of 10,173.61 million of pesos (US\$ 4,050 mil.) or almost double the initial transfer. In all cases, the impact on household income is greater than the initial transfer. It is worth noting that two household institutions, namely urban business and rural business by assumption did not receive remittances at all but saw their incomes increase by 2,441 millions of pesos (US\$ 972 mill.) and 543 millions of pesos (US\$ 216 mill.) respectively. This attests to the notion that remittances have spillover effects over the non-migrant population. There is also some indication that there was an improvement in the distribution of

income as a result of the inflow of remittances because the lower income rural and urban household groups receive almost 42 percent of the induced income. Field surveys indicate that these lower income groups also mostly receive the initial transfer of remittances. Finally, it can also be observed from these results that there is some leakage in the multiplier process in the form of government taxes, savings and imports. The initial amount of remittances induces an increase of approximately 2 percent of gross savings. There is also a relatively modest increase in induced imports of about 1.28 percent of total imports. Thus it seems that most of the induced output comes from domestic sources. This may be due to the fact that most remittances are spent on immediate consumption of domestic goods and that most remittance-receiving households have a relatively low propensity to import.

Next, consider a simulation based on non-unitary elasticities. Although not as large as the previous multipliers, the fixed-price multipliers under the assumption of non-unitary elasticities are nonetheless significant. Table 4.5 shows that the inflow of remittances into Mexico increases real GDP by 1.11 percent and raises household income by 2.04 percent. The increased stimulus in the agricultural and livestock sector is 1,087.5 million pesos (US\$ 432.9 mil). The industrial sector is also impacted by the increase in aggregate demand with the textiles, wood, and paper sectors having the largest increases. There is also an increase in household incomes with the rural sector benefiting the most. It should also be noted that the rural and urban business sectors do not receive remittances but their incomes increase because of the increased aggregate demand by the other rural and urban sectors. This corroborates evidence that the indirect effects of migrants on the non-migrant population are found in the increased aggregate demand for domestically produced goods and services.

Table 4.5: Impact of an inflow of remittances on production and income under assumption of non-unitary elasticities

	Base values	Shock	Impact X	% change
AGRICULT	44,349.66	-	567.73	1.28%
LIVESTOCK	23,952.91	-	519.80	2.17%
RESNOREN	19,724.00	-	650.26	3.30%
FOODPRO	84,774.01	-	893.86	1.05%
TEXMADP	48,616.00	-	1,037.52	2.13%
QUIMDER	54,932.00	-	872.46	1.59%
OTRASIND	55,774.00	-	398.53	0.71%
ELECAUT	38,941.00	-	306.07	0.79%
SERVCOMM	436,282.00	-	3,948.60	0.91%
CAPURBAN	303,464.59	-	3,226.14	1.06%
CAPRURAL	32,564.24	-	491.40	1.51%
LABURBLE	46,713.51	-	493.52	1.06%
LABURBHE	64,194.51	-	666.38	1.04%
LABRURLE	5,678.00	-	89.89	1.58%
LABRURHE	1,289.00	-	20.41	1.58%
FAMILY	9,384.55	-	134.50	1.43%
URBWKLE	58,949.67	1,632.00	2,125.52	3.61%
URBWKHE	80,128.65	1,841.00	2,507.38	3.13%
URBBUS	263,314.00	-	2,126.13	0.81%
AGWKLE	6,715.92	705.00	845.12	12.58%
AGWKHE	1,478.66	287.00	307.41	20.79%
AGBUS	23,409.60	-	353.25	1.51%
CAMPESINO	19,681.94	705.00	1,000.19	5.08%
GOVT	114,262.24	-	1,373.83	1.20%
CAPITAL	108,591.77	-	1,938.07	1.78%
ROW	107,134.80	-	1,337.36	1.25%
Real GDP	463,288.40		5,122.22	1.11%
Total Production	807,345.58		9,194.83	1.14%
HH Income	453,678.44	5,170.00	9,265.00	2.04%

The last experiment assumes that the agricultural and livestock sectors are supply-constrained. The results are shown in Table 4.6. These multipliers are expected to be smaller since there are additional constraints to be met. One can consider this to be a lower bound estimate of the multiplier effect. The inflow of remittances into Mexico stimulates production by 0.89 percent and induces a rise in household income of 1.83 percent. There is no increased stimulus in the agricultural and livestock sectors since by assumption these sectors cannot respond in the short-run. Nevertheless, the industrial sector is impacted by the increase in demand in the food-processing sector. Households unable to increase agricultural production, shift their consumption toward food-processed items.

**Table 4.6 Impact of an inflow of remittances on production and income:
under supply constrained assumption**

	Base values	Shock	Impact X	% change
AGRICULT	44,349.66	-	0.0	0.00%
LIVESTOCK	23,952.91	-	0.0	0.00%
RESNOREN	19,724.00	-	96.0	0.49%
FOODPRO	84,774.01	-	1,464.1	1.73%
TEXMADP	48,616.00	-	663.4	1.36%
QUIMDER	54,932.00	-	595.8	1.08%
OTRASIND	55,774.00	-	334.9	0.60%
ELECAUT	38,941.00	-	124.7	0.32%
SERVCOMM	436,282.00	-	4,390.1	1.01%
CAPURBAN	303,464.59	-	2,999.2	0.99%
CAPRURAL	32,564.24	-	3.3	0.01%
LABURBLE	46,713.51	-	467.6	1.00%
LABURBHE	64,194.51	-	631.3	0.98%
LABRURLE	5,678.00	-	0.0	0.00%
LABRURHE	1,289.00	-	0.0	0.00%
FAMILY	9,384.55	-	0.0	0.00%
URBWKLE	58,949.67	1,632.00	2,099.6	3.56%
URBWKHE	80,128.65	1,841.00	2,472.3	3.09%
URBBUS	263,314.00	-	1,976.6	0.75%
AGWKLE	6,715.92	705.00	752.7	11.21%
AGWKHE	1,478.66	287.00	287.0	19.41%
AGBUS	23,409.60	-	2.4	0.01%
CAMPESINO	19,681.94	705.00	728.2	3.70%
GOVT	114,262.24	-	1,286.06	1.13%
CAPITAL	108,591.77	-	1,715.73	1.58%
ROW	107,134.80	-	1,063.90	0.99%
Real GDP	463,288.40		4,101.40	0.89%
Total Production	807,345.58		7,668.76	0.95%
HH Income	453,678.44	5,170.00	8,318.66	1.83%

The household group most affected, compared to the other simulations, is the rural business group, whose income hardly changes as a result of the inflow of remittances when agriculture is supply constrained. If the agricultural sector cannot respond to the increased demand from additional income, it is to be expected that this group will not benefit from such an inflow, except through higher prices. It is also interesting to note that in all of the experiments the household groups most affected in relative terms by the inflow of remittances are the rural workers with high education and the rural workers with low education group. This attests to the fact that the agricultural sector has significant income and production multipliers; thus, it implies that recent

government attempts to match the remittance inflows with federal funds can have a high payoff in the rural areas of Mexico.

Table 4.7: Production Multipliers effects

Production Sectors	\$100	\$100	\$100
Assumption	Standard	Non-unitary elasticities	Supply constrained
1. Agriculture	20.52	10.98	0.00
2. Livestock	9.71	10.05	0.00
3. Non-renewable resources	2.49	12.58	1.86
4. Processed food	35.31	17.29	28.32
5. Textile, wood, ...	16.45	20.07	12.83
6. Chemical products	16.67	16.88	11.52
7. Other manufacturing	8.33	7.71	6.48
8. Electrical, automobile	3.15	5.92	2.41
9. Services (construction)	102.02	76.38	84.91
Total production effect	214.65	177.85	148.33

Source: author based on SAM analysis

One useful way to compare the estimates of multiplier effects is given in Table 4.7 above. This table presents the range of possible production multiplier effects due to an inflow of \$100 under the different assumptions. Table 4.7 shows that in absolute terms the service sector has the highest total production multiplier. This sector encompasses many activities where remittances are destined; therefore a more refined study is needed to calculate the effects on specific sectors. The service sector in this exercise includes domestic services, medical and educational services, recreation, communications, construction and home improvement, wholesale and retail commerce plus hotel services. When agriculture and livestock are not supply constrained, these sectors are among the ones with the highest production multipliers in relative terms. In sum, it can be said that the production multiplier is between 2.14 and 1.48 per dollar sent.

Table 4.8: Income multiplier effects under different assumptions

	Standard assumptions			Non-unitary elasticities			Supply constrained		
	Multiplier	1st round	2sd round	Multiplier	1st round	2sd round	Multiplier	1st round	2sd round
26.UWKLE	42.70	31.57	11.13	41.11	31.57	9.54	40.61	31.57	9.04
27.UWKHE	50.65	35.61	15.04	48.50	35.61	12.89	47.82	35.61	12.21
28.UBUS	47.22	-	47.22	41.12	-	41.12	38.23	-	38.23
29.AWKLE	17.16	13.64	3.52	16.35	13.64	2.71	14.56	13.64	0.92
30.AWKHE	6.12	5.55	0.57	5.95	5.55	0.40	5.55	5.55	-
31.AGBUS	10.49	-	10.49	6.83	-	6.83	0.05	-	0.05
32.CAMPE	22.44	13.64	8.80	19.35	13.64	5.71	14.08	13.64	0.44
Total	196.78	100.01	96.77	179.21	100.01	79.20	160.90	100.01	60.89

Source: author based on SAM analysis

Table 4.8 contains the same first round effect for all three simulations because we are using the same \$US100 injection as an experiment. Therefore; the effects of different assumptions is to alter the total income multipliers for the second round effects. Value added and incomes generate demand linkages in the SAM framework. In all cases, the largest income multiplier is generated in the urban household sectors, urban workers with high education, urban workers with low education and urban businesses. The latter show significant income multipliers even though by assumption this sector did not receive any direct inflow of remittances. This result may reflect the fact that rural households generate demand linkages with medium and large cities where commercial activities are more developed. It is worth noting that the *campesino* household sector, defined as small agricultural owners and agricultural laborers, do receive a significant amount of the multiplier effect; therefore the earlier claim that agricultural development induces a more equitable distribution of the benefits of economic growth is supported.

The results are consistent with the argument made by some development economists that although the agricultural sector has low production multipliers, “when one considers the linkage effects created by agricultural incomes, as included in the SAM multipliers, the agricultural sectors do not fare any worse than the industrial sectors and, furthermore, induce a

relatively more equitable distribution of growth.”⁸ For example, Table 4.8 shows that the agricultural business sector does benefit indirectly through second round effects even though they did not receive the initial inflow of remittances. Of course, this is not the case under the supply-constrained experiment since additional demand in this case has to be satisfied by additional imports. In sum, it can be said that there are significant income multiplier effects. This income multiplier is possibly between 1.96 and 1.60 for each dollar in remittances.

Another useful simulation of the impact of remittances on economic growth is to examine the effects on employment generation arising from increased aggregate demand. For this purpose, an employment multiplier was estimated using the same matrix of multipliers as above and the same pattern of consumption out of remittances (Bulmer-Thomas:1982). Under the assumption that there is a fixed proportional relationship between output and employment we have:

$$I = \eta x \quad (1)$$

where I is a vector of employment requirements and η is a diagonalized matrix formed from a vector of employment coefficients. By pre-multiplying the matrix of SAM multipliers, $(I-A)^{-1}$ by η , we obtain:

$$I^* = L^* \Delta x \quad (2)$$

so that the l_{ij} element of L^* measures the employment created directly and indirectly when the j th final demand changes by one unit and $\sum_i l_{ij}$ measures the total employment created throughout the economy. Table 4.9 shows the results.

⁸ Sadoulet, E. and A. de Janvry (1995), Quantitative Development Policy Analysis, John Hopkins University Press: Baltimore, pp. 291.

Table 4.9: Employment Effects of Remittances

Output sector	Final demand in million \$US	Employment	Own sector effects	Other sector effects	% of total employment
AGRICULT	186,774	135,607	110,947.00	24,660	2.54%
LIVESTOCK	8,233	12,973	3,612.00	9,361	1.83%
RESNORREN	-	2,403	611.00	1,792	0.88%
FOODPRO	357,017	14,882	1,830.00	13,052	2.20%
TEXTMADP	204,741	15,138	3,689.00	11,449	2.34%
QUIMDER	231,340	8,498	1,219.00	7,279	2.54%
OTRAIND	86,448	3,830	521.00	3,309	1.14%
ELECAUT	104,973	5,084	1,195.00	3,889	1.02%
SERVCOMM	261,402	126,810	96,657.00	30,153	0.94%
Total final demand	1,440,927				
Total employment		325,225	220,281	104,944	1.46%
% of new employment			67.73%	32.27%	

Source: author based on SAM analysis

Using the data from the uses of remittances survey, I disaggregated the inflow of remittances into the respective spending categories. This is the vector of final demand in millions of pesos. The resulting employment vector indicates that 325,225 potential jobs could be created as a result of this inflow, which amounts to 1.46% of total employment in Mexico. These effects are also reported in terms of the potential employment in the sector where the initial final demand occurs (own sector effects) and in terms of the potential employment required to satisfy the additional intermediate demand due to remittances. The agricultural and service sector effects are mostly in their own sectors while the industrial sector effects are small and mostly due to intermediate demand effects.

In terms of the total amount of remittances, it can be said that one job is created for each 11,129 pesos of remittance inflow or one job is created for every US\$4,431 of remittances. This is very encouraging but it should be taken as an upper limit of the possible effects because of the assumption made. We assumed there is a fixed proportional relationship between output and employment; thus, there is no substitution between labor and capital. This may lead to an overstatement of the employment effects.

Another interesting result is that just over 80 percent of the jobs created by remittances would be created in the agricultural and service sectors while the industrial sectors show very little potential. Nonetheless, the results show a 2 percent increase in the number of jobs created in the food processing and the textile/wood sectors. In a country like Mexico that has about one million new entrants a year into the labor force, this number of potential jobs is very significant. Although there are an increasing number of migrants with previous work experience in Mexico who leave their jobs to migrate to the United States, remittances seem to serve as a mitigating factor that may deter other potential migrants from joining the flow of migration to the US by creating jobs at home.

4.5 Conclusions and policy recommendations

In this chapter I have examined the multiplier effects of remittances on production, income and employment. The Social Accounting Matrix multiplier analysis was used under different assumptions in order to estimate a possible range of effects. For an economy of the Mexican type, we find that a \$US 100 inflow of remittances increases production between \$US 214 and \$US 148. Household incomes increase between \$US 196 and \$US 160 depending on the assumptions made. Finally, we find that in the most optimistic case, every \$US 4,431 inflow of remittances may create one additional job, mostly in the agricultural and service sectors, with a significant number also in the food processing and textile sectors of the economy. Although a national SAM analysis is a useful exercise and it is surprisingly consistent with the multiplier results found at the village level by Taylor and Vogel (1988), a more fruitful approach tends to be at the regional and/or local level because of the geographical distribution of remittance receiving households. The problem remains the availability of data to further explore the impact of remittances on migrant households. A regional perspective may explain the pessimistic results obtain from small communities field surveys which show very little economic activity in the local sending community. Yet, a wider village or regional SAM perspective will most likely show that these communities are linked to regional markets in which a lot of economic activity is generated as a result of the inflow

of remittances in small communities. The final impact on households will be greatly determined by the kinds of economic linkages shown in a SAM framework.

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CHAPTER 5: TRANSNATIONAL PHILANTROPY AND ORGANIZATIONAL STRATEGIES: THE CHALLENGE OF MEXICAN HOMETOWN ASSOCIATIONS IN THE UNITED STATES

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5.1 Introduction

In recent years, migration scholars, politicians, and activists have observed the constant growth of migrant-led groups in their places of destination throughout the world, most particularly hometown associations (HTAs). While the organizational structure of these associations is based on a relative formality and their voluntary structure, the fact is that they have gained public recognition by increasingly becoming an effective vehicle to enhance the social and economic conditions of their hometowns and regions in their nations of origin, through raising funds which are then transferred to these localities as collective remittances. Thus, these migrant groups have become a recurring theme regarding the possible linkages between migration, remittances, and development.

Nevertheless, while some migration analysts assert that HTAs have turned into “a worldwide phenomenon,” most of the literature on this topic has made of HTAs in the United States their main focus (Caglar 2006; Levitt 1997). These grassroots organizations established by migrants from Latin America, but namely from Mexico in the United States have steadily multiplied during the last two decades. Although migrants from different regions in Mexico and Central America have promoted and sustained several kinds of organizational forms for many years—including committees, fronts, and coalitions—through which they have pursued their diverse goals, by the end of the 1990s, HTAs had become the most widespread organizational type among Mexican migrant communities. In fact, we find these groups (which appear under various names, including civic clubs, social clubs, and committees) and their umbrella federations among Mexican migrants with a long migratory tradition as well as from new sending regions.

These associations' main goal is to promote the well-being of their communities by raising funds in the United States, which are then used in building public infrastructure and undertaking community projects. Furthermore, in many cases their memberships pay special attention to the needs of the most vulnerable groups in their hometowns of origin. Consequently, these migrant groups have been depicted as bridging agents between Mexico and the United States and as pivotal supporters of well being in their communities of origin through the various philanthropic and infrastructure initiatives they fund. And while there seems to be an agreement on the limited impact of Mexican migrants' individual or family remittances regarding the promotion of regional development in their impoverished hometowns in Mexico (since this money is almost entirely dedicated to satisfy the basic needs of the members of the household left behind by migrants), collective remittances¹ funneled through HTAs (despite constituting a small fraction of the overall flow of remittances) have been regarded as a more likely source of sustainable development. The increasing involvement and influence of these groups in the everyday lives of their communities have been documented and examined by several migration analysts. For example, in the late 1970s, Richard Mines (1981) observed that returning Animeños from the United States showed a lack of interest in developing their community, located in the state of Zacatecas in Central Mexico. For this reason the town was becoming a leisure and retirement center for its successful migrants and a reproduction center for new ones. However, Animeños in the Los Angeles metropolitan area are members of two HTAs. The first one, Club Fraternidad Las Animas in the City of Los Angeles, was founded in 1997 and is currently building a residual water plant. The second one, Club Las Animas has its core in Buena Park and was organized in 2000. The members of this HTA are supporting the renovation of the community plaza.

¹ For an extensive analysis of the different types of remittances (family, collective and investment) see the typology developed by Luin Goldring (2004), as well as the different actors and implications involved for each different kind of remittance.

These migrant-led groups, like most of the Mexican HTAs currently operating throughout the United States, raise money in the cities and towns that constitute their new homes through the organization of an extensive array of activities (dances, beauty pageants, raffles, picnics, rodeos, membership dues and private donations). In turn, the raised funds turn into substantial money transfers to Mexico under the form of collective remittances. Some of the most important public works funded by HTAs include the construction or renovation of roads, bridges, parks, churches, schools, health care clinics, sports facilities, and streets. The social projects they fund benefit the most needed sectors in their communities of origin through the support of health care clinics, childcare centers and convalescent homes for the elderly. These groups also donate ambulances, medical goods, school supplies, and distribute educational grants among low-income students. This chapter uses Mexico as a case study to examine these organizations and the evolving nature of their collective monetary remittances. This new type of remittance has increasingly played a pivotal role in the economic development of many regions in that nation. The chapter focuses on two central aspects: factors that have led to the emergence of Mexican migrant associations in the United States and the uses of collective remittances in Mexico.

5.2 The emergence of Mexican migrant hometown associations in the United States

In recent years, migration scholars have noted the increasing growth of organizations of immigrants, but namely of hometown associations (HTAs) in different parts of the world. For example, some analysts have examined their spread and importance in Europe (Soysal 1994; Caglar 2006). However, most of the resulting literature focuses on HTAs in the United States established by migrants from Latin America, but namely from Mexico. These associations promote the betterment of their communities by carrying out fundraisings in the United States. The resulting funds become collective remittances, which are used in turn to promote public infrastructure and undertaking community projects (Alarcón, et al. 1998; Alarcón, 2002).

Most of these associations originate in rural settlements, where the social networks of migration are strongest. These networks are mostly based on *paisanaje*, a shared sense of local or regional origin. These networks are a pivotal support for new migrants, by providing them access to information and resources (on jobs, housing, schools, etc.) in their new society. In addition, they also result in specific settlement patterns, in which people from the same hometown in Mexico decide to dwell in the same destination in the U.S., something that has facilitated the organization of these *clubes* (Massey et al. 1987).

According to Carol Zabin and Luis Escala (2002), these migrant associations exhibit three levels of institutionalization and complexity. At the first level, informal associations are formed by migrants from the same rural hometown; their members then participate in the same social events and, when needed, give economic aid to fellow members. There can be as many associations of this type as there are rural settlements in Mexico sending migrants to the United States.

The second level of organization comes up when formal leaders emerge and organize the “daughter community” in the United States. Zacatecan migrants initiated this kind of organization in Los Angeles and have been the inspiration for other migrant groups from Mexico. Following their example, the *Secretaría de Relaciones Exteriores* (Foreign Relations Secretariat, SRE) used the *Programa para las Comunidades Mexicanas en el Exterior* (Program for Mexican Communities Abroad, or PCME), through its consular network in the United States, to promote the creation of formal migrant HTAs. Finally, the third organizational level for migrant associations is the federation, which is a coalition of associations from the same state in Mexico. A clear indication of the importance achieved by HTAs among the different Mexican migrant communities is their steady increase during the last few years, as well as their expanding presence throughout the United States. Table 5.1 illustrates this growth during the period of 1998 and 2003.

**Table 5.1 Number of Mexican HTAs in the United States
by State of Origin (1998-2003)**

States of Origin in Mexico	1998	2003
Aguascalientes	3	1
Baja California	1	1
Chihuahua	6	10
Coahuila	2	2
Colima	1	4
Distrito Federal	3	6
Durango	19	20
México	6	11
Guerrero	23	51
Guanajuato	40	48
Hidalgo	4	11
Jalisco	74	100
Michoacán	19	51
Morelos	0	5
Nayarit	22	27
Nuevo León	2	4
Oaxaca	22	36
Puebla	12	34
Querétaro	1	0
San Luis Potosí	39	23
Sinaloa	12	17
Sonora	2	5
Tamaulipas	2	3
Tlaxcala	7	13
Veracruz	2	12
Yucatán	4	2
Zacatecas	113	126
Total	441	623

Source: *Directorio de Oriundos en los Estados Unidos* (Secretaría de Relaciones Exteriores, 1999), and the *Programa para las Comunidades Mexicanas en el Exterior* (Secretaría de Relaciones Exteriores, 2003).

While these figures are restricted to the number of organizations registered by the Mexican Consulates' Office of Community Affairs, they clearly convey their rapid growth and their increasing spread in different parts of the United States, beyond the traditional destinations of Mexican migration. Table 5.1 highlights the expansion among migrants from practically all Mexico's states, both from the traditional western central sending areas and the new, emergent sending regions. In this sense, these figures illustrate the extent and success of HTAs as an increasingly visible organizational strategy of first

generation Mexican migrants. In addition, table 5.2 indicates the general increase in the number of HTAs by state in the U.S. California and Illinois concentrate 80 percent of the total number of HTAs in 2003, a figure that is consistent with the increase and clustering of the Mexican migrant population. It is however noteworthy the presence of HTAs in nontraditional destination states such as New York and Pennsylvania.

**Table 5.2 Number of Mexican HTAs by State of Destination
in the United States (1998-2003)**

States of Destination	1998	2003
Arizona	5	9
California	240	329
Colorado	4	5
Florida	3	1
Georgia	2	2
Illinois	82	170
Indiana	-	2
Michigan	-	1
Nevada	-	1
New Mexico	-	3
New York	15	27
North Carolina	-	1
Oregon	3	4
Pennsylvania	5	11
Texas	73	48
Utah	2	2
Washington	7	7
Total	441	623

Source: *Directorio de Oriundos en los Estados Unidos* (Secretaría de Relaciones Exteriores, 1999), and the *Programa para las Comunidades Mexicanas en el Exterior* (Secretaría de Relaciones Exteriores, 2003).

The most important clusters of Mexican HTAs and the federations that group them are located in the Los Angeles and Chicago metropolitan regions. During the 1990s, their growing presence in California, along with the Mexican government's outreach campaign (led by the already mentioned Program for Mexican Communities Abroad), encouraged the further expansion of migrant associations via the organizational model of clubs and federations. Table 5.3 illustrates this growth for the case of Los Angeles, showing that the communities from Jalisco, Zacatecas, Oaxaca and Michoacán that had a long

migratory and organizational tradition managed to take advantage of this new circumstance consolidating their organizational networks.

Table 5.3 Mexican Migrant Clubs and Federations in Los Angeles, 1998–2005

STATE OF ORIGIN	Number of Clubs		Federation	
	1998	2005	1998	2005
Jalisco	49	103	Yes	Yes*
Zacatecas	51	75	Yes	Yes*
Oaxaca	8	41	No	Yes*
Michoacán	11	21	No	Yes*+
Nayarit	9	16	Yes	Yes*
Guanajuato	1	13	No	Yes*
Puebla	5	12	No	Yes*
Yucatán	0	10	No	Yes*+
Colima	0	8	No	Yes
Sinaloa	11	6	Yes	Yes*
Durango	4	3	Yes	Yes*
Baja California	0	2	No	Yes*
Veracruz	0	3	No	Yes*
Guerrero	1	2	No	No
Hidalgo	0	2	No	No
Other	20	49	—	—
Total	170	420	5	13

Source: Rivera, Bada, and Escala (2005).

*Indicates current members of the Confederation of Mexican Federations in the Midwest.

+ Indicates more than one federation.

Similarly, Mexican HTAs have experienced an analogous growth in the Chicago metropolitan area. In 1995, the Mexican consulate in Chicago recorded 35 Mexican HTAs in the metropolitan area. By that time, there were already 6,000 Mexican soccer leagues across the United States supported by PCME. Today, the Mexican consulate in Chicago lists 270 HTAs in their database.² Table 5.4 shows that these associations are organized in 17 federations and one Confederation of Mexican Federations.

Some of the literature on Mexican HTAs has emphasized the reduced but influential character of their membership. For example, Escala Rabadán (2004) points out the significant gap between the number of members among

² However, the consulate only disaggregates the numbers by state of origin until April of 2005 and lists 251 HTAs representing 16 Mexican States of origin and the Federal District. See Barceló Monroy (2005).

these organizations vis-à-vis the estimated size of the different Mexican migrant communities in the Los Angeles area. Similarly, a recent survey conducted by the Pew Hispanic Center revealed that only 14 % among 4,000 Mexican migrants visiting several consulates to request a *matrícula consular* card declared to be members of HTAs (Suro: 2005). Nevertheless, the literature on these migrant groups have pointed out that the small size of the HTAs' memberships constitute a "critical mass" that exert remarkable influence among their communities both in their hometowns in Mexico and in their cities of residence in the U.S.

Table 5.4 Mexican Migrant Clubs and Federations in Chicago, 1998–2005

STATE OF ORIGIN	Number of Clubs		Federation	
	1998	2005	1998	2005
Guerrero	36	59	Yes	Yes**
Zacatecas	28	33	Yes	Yes*
Jalisco	21	26	Yes	Yes*
Guanajuato	22	30	Yes	Yes**
Michoacán	14	37	Yes	Yes**
San Luis Potosí	6	13	Yes	Yes
Durango	3	20	Yes	Yes**
Hidalgo	0	7	No	Yes*
Oaxaca	4	6	No	Yes*
Edo. de México	1	4	No	Yes
Chihuahua	0	4	No	Yes*
Veracruz	0	4	No	No
Puebla	1	3	No	Yes
Distrito Federal	2	2	No	Yes
Nuevo León	0	1	No	No
Other	2	2	—	—
Total	140	251	7	17

Source: Rivera, Bada and Escala (2005).

* Indicates current members of the Confederation of Mexican Federations in the Midwest.

+ Indicates more than one federation.

HTAs' influence can be explained by the specific sociodemographic profile of their members. In 1998, two studies carried out at the University of California, Los Angeles interviewed 93 members of HTAs from Zacatecas and Jalisco who were residing in the Los Angeles area (Alarcón, Runsten, and Hinojosa 1998; Alarcón and Iñiguez 1999). These studies suggest that the interviewees were not representative of the Mexican population in metropolitan

Los Angeles because they were older and had a higher level of educational attainment than most Mexican migrants. Likewise, almost all the interviewed members lived with their families in the United States, and because they had resided in this country for a longer time and a high percentage owned their homes there, they seemed to be better integrated into U.S. society (see table 5.5).

Table 5.5 Demographic characteristics of HTAs' members from Jalisco and Zacatecas in the Los Angeles area, 1998

DEMOGRAPHIC CHARACTERISTICS	JALISCO	ZACATECAS
Age (median)	43.5	40
Years of schooling (median)	9	9
Year of first visit to the United States	1972	1974
Year of settlement in the United States	1974	1979
Family resides in the United States (%)	90.5	90.1
Home ownership in the United States(%)	71.4	72.5
Number interviewed	42	51

Source: Alarcón, Runsten, and Hinojosa (1998); Alarcón and Iñiguez (1999).

The comparison of educational level and income of HTAs' members from Zacatecas with other Latin American migrant groups in Los Angeles County also suggests that their members have a higher socioeconomic status than do other migrants. When comparing educational levels and income among four selected migrant groups, we may observe that Zacatecan migrants have a higher level of education and higher average annual income compared to the other three groups, both at the individual and household levels (table 5.6).

In sum, the rural origins of a community of migrants, a long tradition of migration and organizational strategies, solid social networks, and a strong settlement in the United States are key factors that have led to the rise and consolidation of HTAs among Mexican migrants. Nevertheless, the direct participation and active role of the Mexican government, particularly through state governors and the network of Mexican consulates in the United States, has also played a fundamental role in this process.

Table 5.6 Educational and income levels of selected Latin American migrant groups in Los Angeles ³

	Zacatecan migrants 1998	Mexicans with legal residency 1994	Undocumented Mexicans 1994	Latino migrants 1989
Percentage with high school diploma	35.3	25.1	35.5	29.5
Median annual individual income (dollars)	\$19,200	\$13,000	\$9,000	no data
Median annual household income (dollars)	\$31,200	no data	no data	\$29,989
Sample size	51	795	359	1,794,372

Source: Alarcón and Iñiguez 1999; Marcelli and Heer 1997; and Hayes-Bautista et al. 1993.

5.3 Migrant Associations, State Governors, and Mexican Consulates in the United States

An analysis of the functioning of Mexican migrant associations from the states of Zacatecas, Jalisco, Michoacán, Oaxaca and Guanajuato demonstrates that state governors and Mexican consulates in the United States have played a fundamental role in the rise and development of these organizations and in the generation of collective remittances.

Zacatecas is a state with a long migratory tradition, and its governors have actively helped establish strong connections to the state's migrant population in the United States. Even though there were Zacatecan HTAs in Southern California ever since the 1960s, they came together during the 1970s under the *Federación de Clubes Mexicanos Unidos* (Federation of United Mexican Clubs), and its institutionalization as the *Federación de Clubes*

³ Data in columns 2 and 3 are from Enrico Marcelli and David Heer (1997), whose study was based on a 1994 household survey administered by El Colegio de la Frontera Norte and the University of Southern California in Los Angeles County. That survey used a random sample of census tracts, which recorded at least 25% population reporting Mexico as the country of birth. The survey focused on adults in 271 households in which at least one person had been born in Mexico. The data on Latin American migrants, in column 4, come from a study by David Hayes-Bautista et al. (1993) that used the Public Use Microdata Samples (PUMS) from the 1990 Census for Los Angeles County. The PUMS data are a random sample of 5% of the U.S. population, and it differentiates between native-born and immigrant respondents. Based on the PUMS, there were 1,794,372 Latin American migrants in 1990. Most were of Mexican origin, although a large percentage were from Central America. According to the authors, in 1990, 80% of the Latin American migrants had legal residency documentation.

Zacatecanos del Sur de California (Federation of Zacatecan Clubs of Southern California, FCZSC) did not occur until 1985, thanks to the support of then-governor of Zacatecas Genaro Borrego (1986-1992) (Goldring 1998; Moctezuma, 1999). In 1986, the federation and the state government signed an accord to invest money in equal parts to accomplish public works.

Over several decades, Zacatecan leaders in Los Angeles have organized many HTAs while maintaining a good working relationship with the Mexican Consulate General in Los Angeles. According to Luin Goldring (1998), the FCZSC established close ties to the Mexican federal government during the administration of Carlos Salinas de Gortari (1988-1994). The involvement of Zacatecan HTAs was key to the creation of several policy initiatives toward migrant communities. For example, a health care program under the *Instituto Mexicano del Seguro Social* (Mexican Institute for Social Security, IMSS) extended coverage on a fee-payment basis to the relatives in Mexico of migrants residing in the United States.

Moreover, thanks to the experience of working closely with the administration of Governor Genaro Borrego, Zacatecan leaders promoted the establishment of the federal level Two-for-One program, created in 1993 by the *Secretaría de Desarrollo Social* (Social Development Secretariat), and later extended to other states. *Dos por Uno* (Two-for-One) refers to the matching contributions by Mexico's government—one dollar from the federal government, and the same amount from the state government—for every dollar contributed by a migrant association (Goldring 1998; Smith 1995).

President Ernesto Zedillo's administration (1994-2000) cancelled the Two-for-One program at the federal level. However, Zacatecas Governor Ricardo Monreal from the *Partido de la Revolución Democrática*, PRD (1998-2004), managed to expand this initiative and established the *Programa Tres por Uno* (Three-for-One Program), in which the federal, state, and municipal government participated alongside the HTAs (*Comunidades Zacatecanas en el Extranjero*, 1999; Moctezuma: 2002). The Three-for-One Program began in 1997 with US\$300,000. One year later, it was operating with US\$5 million,

supporting 93 projects in 27 municipalities (Comunidades Zacatecanas en el Extranjero, 1999).

The federal program of decentralization (an initiative known as “New Federalism”) implemented during President Zedillo’s administration enabled municipal governments to participate in the Three-for-One Program thanks to funds that were available to them; first, through a policy instance called *Ramo 26* and later, through *Ramo 33*. The latter was created by the Mexican Congress in 1998, which included discretionary funds for states and municipalities (Goldring: 1999; Burgess: 2005).

Vicente Fox became president in 2000 and in 2002 resurrected the Three-for-One Program that was extended to all of the states and was administered under the Secretaría de Desarrollo Social (Social Development Secretariat). The program was officially named *Iniciativa Ciudadana* (Citizen Initiative Program), and funded 942 and 899 projects in 2002 and 2003, respectively (Burgess :2005).

Some of the most important leaders in the FCZSC are successful entrepreneurs in Los Angeles. To court them and promote investments in Zacatecas, the state government created the *Fondo de Inversión y Reinversión* (Fund for Investment and Re-Investment) with the participation of the *Fondo Nacional de Empresas de Solidaridad* (*National Fund for Solidarity Enterprises*, FONAES), the federal government’s investment and loan program (Moctezuma 1999). In turn, Zacatecan HTAs have taken advantage of these policies by consolidating their organization. As we pointed out above, a sign of this fruitful relationship between the state government and organized migrants is their steady growth throughout the 1998-2005 period. In addition, the FCZSC also consolidated its organizational leadership as the main Zacatecan umbrella organization in the United States. In 2001, this federation comprised 47 HTAs from 29 cities in Southern California (Alarcón: 2004). As table 5.7 shows, in 2006 the number of HTAs within the FCZSC has reached to 74, distributed in 43 cities of that region.

Table 5.7 Member HTAs of the Federación de Clubes Zacatecanos del Sur de California, 2006

LOS ANGELES Raíces Zacatecanas, Fraternidad las Animas, Grupo el Remolino, Club Artistas Unidos de Los Ángeles, Club El Dorado, Club Milpillas de la Sierra, Club Morelos, Club San Pablo, Club San Pedro, P. G. Zacatecas, Club Social Estancia Nochistlán	SANTA ANA Club Miguel Auza, Ranchos Unidos de Luis Moya, Club Cuatro Ojos de Agua, Club Rancho de la Virgen, Club Social La Luz de California	INGLEWOOD Club Campesinos Remolino, Club Piñón Gigante de Juchipila, Club Contreras, Club Familias Unidas Santa Rosa, Club Social Caxcanes de Moyahua
SUN VALLEY Club Deportivo San Vicente, Club Jagüeyense	NORWALK Club Rancho El Pedregal, Club Deportivo Santa Juana	PASADENA Ranchos Unidos de Atolinga
WEST COVINA Hermandad Latina, Club San Cristóbal de Momax, Club Social Nochistlense	WILMINGTON Club Social Tepechitlán, Club Social Loreto	WHITTIER Club San José de Llanetes, Club San Luis, Unidad Social y Cultural
WOODLAND HILLS Club Jomulquillo	PICO RIVERA Club Social Hermandad Jalpense	ONTARIO Club San Ignacio, Club Cristo Rey
HACIENDA HEIGHTS Familias Unidas por Jalpa	EL MONTE Club Social Atolinga	AZUSA Club Social Momax
LA PUENTE Club Fátima de Majadas, Club Social Florencia de Benito Juárez	SAN FERNANDO Club Unidos por El Cañón de Juchipila	THOUSAND PALMS Club Alianza Ausentes de Juanchorrey
PANORAMA CITY Club Vallecitos y Ranchos Afiliados	ANTIOCH Club Aguacate de Abajo	BUENA PARK Club Las Animas
RIVERSIDE Club Apulco Unidos	BALDWIN PARK Club Las Huertas, Club Maravillas	CANOGA PARK Club Llano Grande
ROWLAND HEIGHTS Club Ermita de Los Murillo	MC FARLAND Club Rancho Nuevo, Huanusco, Club San Pedro	BELLFLOWER Club Ranchos Unidos La Labor y Peine
COMPTON Club El Jaralillo Unidos	ROSEMEAD Club Cultural Adjuntas del Refugio	BURBANK Club Real de Minas Fresnillo
ARLETA Club El Molino	SAN DIEGO Club Saucedo de Mulatos	OAKDALE Club Hijos Ausentes de la Ceja
CARSON Club Familias Unidas de Tepechitlán	MISSION HILLS Club San José de Mesillas, Club Social Contitlán	PARLIER Club Social Tepechitlán en Fresno California
HEMET Club Ignacio Zaragoza, Club Villa Garcienes Unidos	CULVER CITY Club La Noria, Club Unidos por Atemajac	LONG BEACH Club La Encarnación
SYLMAR Club La Villita	ADELANTO Club Deportivo Valparaíso	LA HABRA HEIGHTS Club Social Valparaíso

Source: Federación de clubes Zacatecanos del Sur de California, 2006.

<http://www.federacionzacatecana.org>

Finally, the FCZSC played a pivotal role in the rise of the *Consejo de Presidentes de Federaciones Mexicanas* (Council of Presidents of Mexican Federations) in July 2002, which grouped 13 Mexican federations in the Southern California region and claiming to represent hundreds of thousands of Mexican migrant families in California (Wides: 2004; Rivera-Salgado and Escala Rabadán: 2004). Like Zacatecas, Jalisco is a state with a long history of migration to the United States, but its migrant associations have only recently caught the eye of the state's governments. The formation of forty-nine associations and a *Federación de Clubes Jaliscienses* (Federation of Jalisco Clubs) in 1991 resulted from the active role taken by the Mexican consulate in Los Angeles and the state government of Alberto Cárdenas (1994-2000), which relied on the migrant organizations from Jalisco that emerged during the 1970s. In addition to the past neglect by the state government, Zabin and Escala (2002) considered that the federation has not been very successful because the leadership in Los Angeles had maintained a centralized power structure.

Jalisco Governor Alberto Cárdenas, a member of the *Partido Acción Nacional* (National Action Party), became interested in working with the migrant associations, with which he had had contacts during his frequent visits to Los Angeles, and which he had backed in several projects. He first supported the launch of two programs in the state: Raza Express and its debit card, Afinidad Jalisco Banamex, in an attempt to improve the remittances transfer to Jalisco. The executives of Raza Express promised to deposit a portion of each dollar sent to Jalisco into the *Fideicomiso de Inversión Fideraza* which would fund projects to improve public infrastructure and support the state's small entrepreneurs (Valenzuela 1999). In addition, the Jalisco state government, in association with the *Federación de Clubes de Jalisco*, obtained a credit line for US\$2 million from the North American Development Bank (NADBANK) to stimulate productive investment in Jalisco among entrepreneurs who were members of the federation. Finally, following the example of Zacatecas, the government of Jalisco and the Federation decided to participate in the Three-for-One Program at the beginning of this decade.

Michoacán is another state with a long migration history to the United States, and it has a strong federation of migrant associations in Illinois. Victor Espinosa (1999) demonstrates that the involvement of the Mexican consulate played a fundamental role in the creation in 1996 of the *Federación de Clubes Michoacanos en Illinois* (Federation of Michoacán Clubs in Illinois). That same year, the governor of Michoacán visited Chicago to meet with members of these groups. HTAs' leaders agreed they needed to come together in order to have greater negotiating power with the governor. As a result of that visit, the associations that were part of this Michoacano federation implemented several public works projects. For example, four of the associations sent more than US\$650,000 to fund the highway construction as well as sports, day-care, and cultural centers. These funds covered the renovation of churches, street repairs, the building of sewer and potable water systems, and support for schools (Espinosa 1999).

Likewise, Michoacano HTAs have also experienced a notable growth in the Los Angeles area, from 11 to 21 in the 1998-2005 period, and grouped under two different federations. Overall, Michoacano HTAs have been quite successful in distributing the benefits of the state government's matching programs outside town centers, or *cabeceras municipales*. Historically, most of the public investments were allocated to benefit these town centers, thus leaving the most remote rural communities with scarce resources to fend for themselves. However, Michoacano associations allocated 75% of the projects outside the town centers in 2002 and 2003, thus surpassing Zacatecano and Jalisciense HTAs during the same period (Burgess: 2005).

Since the 1980s, Oaxaca has become a very important source of migrants to the United States. Despite joining the Mexican migratory flow only recently, and coming from a more economically depressed area, Oaxacan migrants have formed strong associations in California which are influenced by the specific form of organization of the indigenous Oaxacan communities, whose members constitute a large portion of the state's migrant outflow.

A remarkable characteristic is that some of these groups not only support the construction of public infrastructure but they also work to defend

human, civil, and labor rights of its members both in Mexico and the United States. According to Zabin and Escala (2002), in 1998, there were several regional federations of Oaxacan migrant associations in Southern and Central California: the *Organización Regional de Oaxaca* (Oaxacan Regional Organization, ORO), the *Organización de Comunidades Serranas de Oaxaca* (Organization of Oaxacan Mountain Communities, OCSO), and the *Coalición de Comunidades Indígenas de Oaxaca* (Coalition of Oaxacan Indigenous Communities, COCIO). The first two are federations of urban associations representing Zapotec migrants. There are also two federations of rural Mixtec organizations: the *Frente Indígena Oaxaqueño Binacional* (Binational Front of Oaxacan Indigenous Peoples, FIOB),⁴ and the *Asociación Cívica Benito Juárez* (*Benito Juárez* Civic Association, ACBJ).

At the beginning of 2001, the first state federation of Oaxacan migrant associations emerged: the *Federación de Organizaciones y Comunidades Oaxaqueñas Indígenas de California* (Federation of Organizations and Communities of Oaxacan Indigenous Peoples, FOCOICA). The leaders of more than twenty communities and umbrella organizations from Fresno, San Diego, and Los Angeles met to discuss the rise of this alliance.

The creation of a Oaxacan federation of migrant associations at the state level has proven to be a difficult task. Gaspar Rivera-Salgado (1999) argues that the Oaxacan organizations are different from mestizo migrant associations because of the ideological background of the Oaxacan leadership. This situation led to a complicated relationship with the government of Oaxaca. For example, FIOB's Mixtec leadership took an oppositional stance toward the administrations of governors Heladio Ramírez (1986-1992) and Diódoro Carrasco (1992-1998), arguing that it was better to maintain some distance from the government in order to make it take responsibility if it did not meet the demands of the communities. In contrast, the leadership of ORO felt that a friendlier position with the state government would garner better results.

⁴ In light of the increasing incorporation of indigenous migrants from other states than Oaxaca, FIOB recently changed its name to *Frente Indígena de Organizaciones Binacionales* (Indigenous Front of Binational Organizations).

Nevertheless, as Rivera-Salgado and Escala-Rabadán (2004) point out, the birth of FOCOICA constitute an organizational success among Oaxacan migrants, in the sense that it meant the overcoming of these and other differences between multiple umbrella organizations, communities, and groups, which represent an array of interests and ethnicities.

In the case of Guanajuato, another traditional sending state in Central Western Mexico, since 1994 the state governors have actively promoted migrant associations through the establishment of *Casas Guanajuato*, a more state-led organizational model for migrants from that state than the traditional HTA's model. According to Germán Vega (2004), in that year the PAN-led state government under Governor Carlos Medina Plascencia established an office to address the needs of migrants through the *Dirección para la Atención de Comunidades Guanajuatenses en el Exterior* (Office Serving Guanajuato Communities Abroad) which has set up forty-two houses, in nineteen U.S. states. Among those, Texas, California, and Illinois have the largest number. La Casa de Guanajuato in Dallas, Texas, was the first to be established in 1994, and it brings together migrants from the municipalities of Ocampo, Cortazar, Irapuato, Salamanca, León, Dolores Hidalgo, Coahuila, Apaseo el Grande, Comonfort, Silao, and Celaya. In 2001, *Casas Guanajuato* was established in such distinct locations as Phoenix, Arizona; Kenneth Square, Pennsylvania; and Kankakee, Illinois.

The *Casas Guanajuato*, like the migrant associations from Zacatecas, Jalisco, Michoacán, and Oaxaca, organize activities directed at improving and developing the communities of origin through various fund-raising strategies. However, the government of Guanajuato implemented a program for investment in productive projects called *Mi Comunidad* (My Community), which has promoted the establishment of textile *maquiladoras* in that state with the support of organized Guanajuato migrants.

Mexico's President Vicente Fox, a PAN politician, governed Guanajuato from 1995 through 1999. He initiated the *Mi Comunidad* program with the aim of generating jobs in Guanajuato's poorest municipalities, which in turn would contribute to reducing migration to the United States. The program began with

the installation of several *maquiladoras*, with an initial capital investment of US\$120,000, provided in equal parts by the state government and the migrants in the United States. The original goal was to establish thirty *maquiladoras*. Nevertheless, by 1999 only six were operating and six were being set up (Rionda and Romero 1999). In 2001, following the successful experience of the Zacatecan HTAs, *Casas Guanajuato* began to develop a matching program with the government (Vega: 2004).

The cases of the HTAs here described reveal that the formalization of the relationship between the federal, state, and municipal governments, on one hand, and the migrant associations, on the other, mostly occurred in the context of the new policies promoted by Mexico's government during the early 1990s, namely under the administration of President Carlos Salinas De Gortari. During that time, the Mexican government began forging an emigration policy through the creation of public policies that targeted Mexican migrant communities in the United States.

There are three reasons to explain this shift in focus regarding Mexico's government policies toward its diaspora. First, as several observers have noted, many Mexicans in both countries had believed that the 1988 presidential elections, which put Carlos Salinas de Gortari in office, were fraudulent. The second was the start of negotiations among the Mexican, U.S., and Canadian governments for the eventual establishment of the North American Free Trade Agreement (NAFTA). And the third, was the victory of Proposition 187 in California that would deny basic social services to undocumented persons.

The first two events triggered the rise of groups of Mexicans in the U.S. affiliated with the opposition movement led by defeated candidate Cuauhtémoc Cárdenas that led to protests in front of several Mexican consulates. While supporting the cause of democracy in Mexico, these groups had their own demands in favor of the Mexican communities, such as demanding an end to the extortion routinely practiced by Mexican customs and migration agents against returning or visiting migrants, improving consular services, and a more active defense of rights, including their political right to vote abroad in Mexican elections. Although, Proposition 187 was never implemented, it deeply worried

Mexican government officials who were aware of Mexican migrants' vulnerability to confront xenophobic measures like Proposition 187 in the ballot boxes, due to their low naturalization rate in the United States.

It is likely that these factors, as well as the Mexican government's interest to promote its image in the international context, paved the way for a more active policy making that targeted the migrant communities in the U.S. As a result, different initiatives were launched in 1990, as an institutional response to some of the outreach gaps and demands raised by these communities: the *Programa Paisano*, *Grupos Beta*, *Solidaridad Internacional*, and the *Programa para las Comunidades Mexicanas en el Exterior* (PCME) (Alarcón and Martínez: 1995; Espinosa: 1999). The main goal of these programs has been to bring the Mexican government closer to its migrant population. For example, PCME's support personnel began reaching out the existing migrant associations in order to promote the creation of federations at the state level, and to facilitate communication between them and Mexican government officials at the local, state and federal levels.

5.3 Uses for Collective Remittance

Migrant associations usually funnel their funds in building public infrastructure and in undertaking community projects. However, productive investment projects with a more visible economic impact on hometown communities through the creation of jobs are still relatively new and scarce. As no exhaustive list of association investments exists, the use of collective remittances can be illustrated by the following review of some of the projects supported by HTAs from Jalisco and Zacatecas in the Los Angeles area.⁵

In 1981, migrants from the town of Pegueros, Jalisco, who were living in Santa Monica, California, formed *Club Pegueros de Jalisco* in Los Angeles. Having begun as a soccer team, it evolved into a formal migrant association. Its members decided to get more organized when a fellow townner died because no ambulance was available to take that person to a hospital. As a result, Club Pegueros's first donation was precisely the needed ambulance. Among many

⁵ This information comes from Alarcón, Runsten, and Hinojosa (1998) and Alarcón and Iñiguez (1999).

other contributions, the club has awarded scholarships to students from both Pegueros and the United States, and it supported the special education needs of fifty-seven children. In 1999, its one hundred active members were diligently raising funds by organizing social events, such as *charreadas* (Mexican rodeos), dances, beauty pageants (the winner is actually selected based on the amount of money collected and not for her beauty), and the annual gala dance, attended by approximately 500 people.

In 1998, the *Comunidad Arandense*, comprising migrants from Arandas, Jalisco, has about ninety participating families, most residing in or near Anaheim, California. In 1994, a group of members split off and began a new association because they considered the board members (mostly businessmen) were not paying enough attention to the hometown needs. This new association supported a care facility for the elderly in Arandas, in collaboration with several professionals who worked in it. The members also occasionally sent donations to people who faced financial emergencies. Each year, this group organizes a traditional *posada* (a Christmas festival) in Arandas for low-income families, in which approximately six hundred children receive gifts. To promote sports among the youth, and to preserve the community identity, the association also supports a soccer team in California.

In 1981, migrants from Temastián in northern Jalisco founded Club Temastián. This town is the site of a popular shrine dedicated to the *Señor de los Rayos* (Lord of the Rays). Pilgrims from all over Mexico visit this shrine, but it particularly attracts the ill, who ask the saint to intervene on their behalf. At times, some of these visitors suffer a health crisis. This has led this HTA to focus on supporting health-based projects in Temastián. As there was no medical infrastructure to attend those in need, this HTA, with the support of the government of Jalisco, built a house in that town where advanced medical students could live while performing their one-year community service, a key stage of their medical training. The club has also donated US\$3,000 in surgical equipment and US\$5,500 to install a water pump in the town. By 1998, there were about 100 families participating in the association's projects, and Club

Temastián was also one of the organizers in the annual festival in honor of the community's patron saint and in supporting low-income families.

In the case of Zacatecas, Club Tepechitlán was founded at the initiative of the local parish in 1991. Its first activity was to send US\$2,500 to purchase food for families affected by a flood. Later, through the FCZSC and the Two-for-One Program, it donated a school bus and a vehicle for the municipal government. It also helped build a church tower, and it has been involved in other community improvements.

In 1988, Zacatecan families living in the San Fernando Valley in greater Los Angeles started Club Mesillas. Around 450 people from that town participated in social events, such as dances, raffles, and rodeos, to collect money to support projects in the hometown. The club's first activity was providing US\$100 per family to finance, with the support of the Zacatecas state government, the drilling of a water well. Later, under the Two-for-One program, the town's sewer system was improved, as were the streets, the hospital, and the church. The association also helped to build an 8 kilometer (5 miles) roadway, and donated a bus to the municipal government. According to some of its members, Club Mesillas inherited its philanthropic tradition from an engineer from the United States who had come to this hometown in Jalisco several decades ago to study its aquifers, and later married one of the local women. At the end of the 1950s, the engineer built a dam in Mesillas with his own money. After his death, the club built a monument to honor him.

In 1993, Club Jomulquillo formed to improve the living conditions in that Zacatecan town. To start a fund, 350 people from Jomulquillo who were living in the United States donated US\$1,000. Through the Two-for-One program, they financed a roadway, street lighting, and a tortilla plant. The club has also supported the education of children in this town, and it started a family kitchen project to feed Jomulquillo's poor.

Finally, the Club Social Hermandad Jalpense was founded in 1996 with thirty active members. In 1999, the club was trying to collect US\$8,000 to build the "Jalpa Youth House for the Arts and Trades" as a Three-for-One project to provide future employment opportunities for the town's youth.

These examples of HTAs from Jalisco and Zacatecas reveal that these organizations send money to their localities of origin in Mexico to build urban infrastructure and to support basic community projects. Their investment in productive projects is negligible. The federal Three-for-One Program, also called *Iniciativa Ciudadana* (Citizen Initiative Program), has followed a similar pattern of investment as shown in table 5.8. These data reveal that in 2004, most projects supported public infrastructure and social assistance, and only 3.8 per cent of them were aimed to fund productive initiatives.

Table 5.8 Type and Number of Projects Accepted by *Iniciativa Ciudadana*. Mexico, 2004

Type Of Project	Number of Projects	Percentage
Community spaces and recreation facilities	462	41.5
Education and health infrastructure	58	5.2
Electrification	117	10.5
Road construction and paving	215	19.3
Water and sewerage	206	18.5
Production	42	3.8
Other	13	1.2
Total	1,113	100.0

Source: Authors' calculations based on Secretaría de Desarrollo Social (2004)⁶

5.4 Conclusions

Mexican HTAs and their federations are migrant philanthropic organizations in the U.S. that invest considerable funds in the form of collective remittances to benefit their communities of origin in Mexico. The HTAs, such as those of Zacatecas, Jalisco, Michoacán, Oaxaca, and Guanajuato discussed here, send money primarily to build urban infrastructure and support basic community projects. As a result, these initiatives aim to promote social change, especially by targeting vulnerable populations, like children and the elderly, and by financially supporting key sectors, like education and health, in their hometowns.

The centrality achieved by these migrant groups reveals the increasing importance and evolving relationship between development, migration, and

⁶ In this table we adapted the typology of *Iniciativa Ciudadana*'s projects created by Katrina Burgess (2005: 115).

remittances. However, this relationship raises some important considerations. The first one refers to a more realistic assessment of the role and influence of HTAs. It would be unwise at best and negligent at worst to assume organized migrants are the key ingredient to tackle the migration-poverty puzzle. Indeed, as several migration scholars have manifested, recent initiatives raised by the Mexican government at different levels seem to adopt this assumption by overemphasizing the importance of productive-investment projects in the future agendas of these groups (Red Internacional de Migración y Desarrollo, 2005). Rafael Alarcón (2004) has argued that it is not the responsibility of Mexican migrants to solve the “problem” of migration to the United States by making them responsible for the creation of employment in their hometowns. Similarly, Barbara Merz (2005) asserts, “migrants cannot and should not assume primary responsibility for development in the communities they left behind.”

Investment in productive projects seems more suitable for migrant entrepreneurs who have the expertise and are seeking to make a profit. It does not make much sense to expect migrants to invest in productive projects simply because the economic conditions of their regional context demand it even when they also often make it impossible. Zarate-Hoyos (1999) maintains that it is the role of banks and other financial institutions, not the migrant associations, to increase the money supply and to expand loans to attract savings and to channel those savings to more productive uses.

A second consideration refers to adequately evaluating HTAs’ performance vis-à-vis the forging of a coherent development strategy. Certainly, when migrant associations finance the building of public infrastructure, such as roads and bridges, the local economies improve and that facilitates economic transactions. Similarly, financing the education and health-care infrastructure is an investment in human capital.

And while it is important to keep in mind the previous cautionary consideration, we need a more systematic analysis to assess the opportunities and challenges of HTAs regarding the improvement of their communities of origin. Indeed, migrant organizations usually convey an array of different interests. For example, in Nigeria, Sara Berry (1985) found that internal

migrants invest money in ceremonies and projects in their communities of origin because they are looking toward their retirement. In the case of Mexico, Luin Goldring (1998) maintains that the leaders of the migrant associations manage community projects and mobilize government resources with an eye to reinforcing their own leadership positions.

Nevertheless, there seems to be an agreement between scholars, practitioners, and donors that philanthropic giving is the most solid common denominator among these migrant groups. In fact, the prevailing approach regarding migration and development in recent years has emphasized the importance of inclusion of members of a diaspora as active agents of the strategies to achieve local or regional growth, rather than neglecting migrants in the development equation. As Orozco and Welle (2005) point out, “taking diasporas into account when designing a development strategy is justified not only by the presence of millions of immigrants who are regularly connected to their homelands but also by the impact those connections have on local economies and communities.”

Finally, a third consideration refers to the changing dynamics of HTAs. The very activities of the associations reveal the difficulty that Mexican migrants have in fully adapting to U.S. social and political institutions. Members usually find it easier to focus on the well-being of their communities of origin in Mexico than to work to create better conditions in their places of destination in the United States. Indeed, traditionally it was a minority of HTAs that participated in civic and political activities in the United States. However, there are indications that important changes are occurring. Some of these groups now give scholarships to their students in the United States; and several Oaxacan organizations offer activities aimed at helping their members adapt to U.S. society.

In the 1990s, migrant associations became involved in the struggle against California’s Proposition 187 (Zabin and Escala: 2002), and nowadays Mexican HTAs are having a visible civic and political participation in key metropolitan areas like Los Angeles and Chicago (Rivera, Bada, and Escala: 2005). In addition, Los Angeles politicians and some Latino organizations have

begun to court these associations. For example, the new leadership of the FCZSC participated in the campaign supporting Los Angeles Mayor Antonio Villaraigosa, and they have also lobbied political authorities in support of initiatives like granting driver license's to undocumented migrants in the state of California (Quiñónez: 2002). These signs reveal the strengthening of HTAs as more mature actors, capable to have a more decisive role in the empowerment of their communities on both sides of the border. In sum, collective remittances sent by HTAs are an indirect drive for regional and local development in Mexico. To a certain extent, this cash inflow has acted as a substitute for a welfare state in many Mexican rural communities. These associations deserve the full support of governments at all levels, as well as from foundations and other relevant actors, so that they may continue fulfilling their altruistic mission in this era of neo-liberal rigidity. We can foresee that their numbers and membership will continue to rise in the United States, and with the proper support, they may increase their capacity to produce more tangible contributions to development in Mexico.

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CHAPTER 6: CAN REMITTANCES SPUR GROWTH IN LOCAL COMMUNITIES? THE CASE OF LOS ALTOS OF JALISCO

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El Colegio de la Frontera Norte

*"El dinero no es la vida,
es tan solo la mitad."
(Money isn't everything in life,
but it's at least fifty percent.)
Mexican proverb*

6.1 Introduction

This chapter's central objective is to provide a general overview of the use of remittances sent home by migrants from the *municipio* of Jalostotitlán in Los Altos de Jalisco (the highlands of Jalisco, which is a state in west-central Mexico). A particular aim is to show whether or not the income sent to families vitalizes the local or regional economy. The chapter is based on fieldwork in Jalostotitlán's rural settlements carried out in 1989. The researchers combined in-depth interviews and participant observation with quantitative data collection—297 questionnaires were administered to households in four *rancherías* where we found about 380 migrants (as the rural communities in Mexico are called) in Jalostotitlán.

Rafael Alarcón (2000), discussing the role of migrant hometown associations, has noted that two schools of thought—one pessimistic, the other optimistic—exist in the academic debate on the economic impact of remittances sent by migrants to their communities of origin. The pessimist school, according to Alarcón, maintains that remittances create economic dependence because the money is spent primarily for consumption, leading to negligible, if any, productive investment. The optimists, for their part, argue that the pessimists do not give enough weight to the productive investments made by the migrants, to the indirect effects of savings, and to the impact of remittances on the promotion of economic growth through consumer spending. According to the optimists, remittances generate a multiplier effect on aggregate demand, employment, and capital investment in general.

In a fairly critical study, Alarcón (2000) observes that migrant remittances, in addition to making economic development possible, also act as a substitute for a welfare system, which Mexico lacks. Remittances function as a social welfare supplement for a good number of Mexican families. If the Mexican government provided something similar to the U.S. welfare system, it might encourage the use of remittances for investment. Another migration specialist, Alejandro Canales (2000) has also questioned why Mexico continues to place the burden of social welfare or public policy functions on the shoulders of migrants (and their remittances) when those things are the responsibility of the Mexican government.

Authors such as Canales (2005) using migrant surveys in his study of the municipality of Teocaltiche, Jalisco, finds that household participation in the migratory circuit is a very dynamic phenomenon that is a function of remittances according to the life cycle of the household. Thus, after a member of the households migrates for the first time and settles in the U.S. then other members follow suit. Shortly after, the latter join the first migrant and remittances are sent. Canales (2005) also suggest that the economic responsibility of the household falls on the members who send remittances while they are single because once they get married, it is observed that remittances declined. Lozano (1993) showed that households with low incomes who receive remittances also allocate some of the money for the further migration of other members of the household. Even though the cost of migration is higher than the income of such households, migration is a strategy to augment their income through remittances from the United States. International migration to the United States is not only a process that involves flows of people but also a flow of goods and services that run in both directions. These flows consolidates social networks, family and cultural ties which in turn foster more exchange relationships and flows of information between sending and receiving communities (Canales: 2005). In this manner, remittances not only represent a flow of money but also an economic nexus between different

members of the household and at the same time contributes to the material and cultural reproduction of transnational families (Canales: 2005)

Thus, remittances are the part of household income perceived by international migrants on a temporary or permanent basis who reside in the country where they work and who transfer remittances to their country of origin. Remittances could be monetary or non-monetary and they are mostly the result of work but could also be the result of commercial transactions (Lozano: 1993). Remittances could be destined for current consumption or for savings and investment but in general remittances could be seen as a complimentary input into Mexican-U.S. labor markets; therefore, they constitute the main reason for international migration (Bean, et.al.:1998).

Hotly debated topics about international migration have been centered around the amount of remittances from the United States and the social and economic benefits on the consumption of receiving households. In Mexico, the debate centers around the increasing amounts of these flows which according to the Mexican Central Bank have been growing faster than foreign exchange from tourism; therefore, the Central Bank argues that these flows contribute to the reduction of poverty in the most impoverished parts of Mexico.

In response to these claims by the Central Bank, *El Colegio de la Frontera Norte* and the Ministry of Social Development maintain that the actual flows of remittances are much lower than the Bank figures and their contribution to poverty reduction is much smaller¹. Remittances are indeed sources of foreign exchange but their final destination is to finance household current consumption and to a very small degree to savings and productive investment. Of course there are also collective remittances whose destination is more oriented towards infrastructure investment but we will focus on family remittances whose main use is current consumption.

¹ El financiero 6; 22 de julio de 2005

As stated before, this portion of household income which migrants abroad sent back home is part of household labor income and it is destined to meet the basic necessities. Several authors (Durand: 1994; Corona: 2001; Lozano: 2005; Tuirán: 2000; Zarate-Hoyos: 2004; Berumen and Arroyo: 2000; Lopez: 2005; Canales: 2005; Mummert: 1988) consider this source of income from labor migration a fundamental source to improve their standard of living: therefore, international migration is a household strategy to assure its material reproduction. Remittances are destined mostly to food consumption, clothing and housing-related expenditures (Durand: 1994) and their main impact is at the regional level (Tuiran: 2000; Berumen and Arroyo: 2000)

Mummert (1988) work on the transformations observed in Michoacan as a result of international migration states that besides the impact of remittances on satisfying basic necessities, remittances are also invested in agricultural equipment, the acquisition of land, the establishment of small grocery stores, the education and health of children in the household. Lozano (2005) point out that even when there is only a small portion of remittances dedicated to the so-called productive investment, there is a good deal that is spent on human capital. On the other hand, Canales (2005) in his study of the community of Teocaltiche in Jalisco argues that remittance uses change over time. In the beginning remittances are used for current consumption but once this is achieved and the migrant has been able to establish himself in the destination country, the uses of remittance turns to housing needs and the purchase of household items and services for the home. After this phase, remittances are geared towards health expenditures and in particular to take care of the elderly.

Remittances also increase the purchasing power of lower income households and they may even change consumption patters depending on their level of income (Lopez: 2005). Zarate-Hoyos (2004) states that the main factor in determining the pattern of household consumption is income but he also points out that the distribution of income and assets and the size and type

of households as well as the number of workers and ethnic and geographical differences can also alter consumption patterns.

Other studies (Avila, et. al.: 2000) point out that remittance receiving households are mainly in rural areas, are headed by a female, have a high incidence of child dependency and older members with relatively low labor force participation rates. These household characteristics lead us to believe that these households really depend on these flows of money to meet their basic necessities but they may even finance the migration of other members. Avila, et. al. (2000) considers that the amount of remittances depend on socio-economic variables such as gender, age and marital status of the head of household as well as indexes representing the presence of other migrants, children and elderly and the labor participation rate and income of all members of the household. Thus, the less the responsibility of the migrant given the presence of other members and the diversity of incomes, remittances are expected to decline.

Ramirez (2002) based on socio-economic and demographic characteristics data obtained from the National Income and Expenditure survey (ENIGH: 2002), compared households receiving remittances in traditional sending regions and emerging sending areas. The author finds that in the traditional sending areas, remittance-receiving households are mostly rural, younger, headed by a male, with higher education levels and lower labor force participation rates than emerging regions. In the emerging regions, remittance-receiving households are mostly urban, older, higher labor participation rates, more diversified incomes. It seems that the presence of remittances is also mediated by regional characteristics that relate to the age of the migratory circuit.

Ramirez (2002) also point out the within traditional and emerging regions, one can observe a change in the type of remittance-receiving households from nuclear homes to extended families. This change corresponds to a new arrangement within the household as a result of the

migration of one of its members in order to maximize the benefits of migration. Therefore; family arrangements are established as a response to migration and their dynamics are determined by the need for remittances and the options for migration of the members of the household (Canales: 2005).

Canales (2005) study in Jalisco also indicates the high incidence of remittance-receiving households headed by an elderly person who live alone or with a close relative pointing to the fact that the obligation to send remittances may extend beyond the immediate family, although unlike Avila, et. al.(2000), this study does not establish any association between the presence of children and remittances. Nevertheless, it does suggest that in households with low labor force participation rates and with the presence of economically inactive members, the presence of remittances is higher. The conclusions of this study with respect to remittances in Teocaltiche in Jalisco is that the structure and composition of the household; the life cycle of the household; the capacity of the household to generate income besides remittances; the availability of goods and services; the ownership of the home; the general well being of the household as well as the migratory experience and history of the members are the main factors whether a household receives remittances or not. Remittances are not static but are significantly tied to the life and the material conditions of the household. They also satisfy the demand for basic goods and services such as consumption, housing, education and health just like any other source of labor income does. In addition, remittances bring a flow of cultural and symbolic values that sustain the cultural and social reproduction of remittance-receiving households (Canales: 2005).

To sum up, various authors have established that the factors determining the flow of remittances are varied and it is difficult if not impossible to merge them all but rather in this study we will specifically look at the relationship between the structure and composition of the household by comparing two areas (Hidalgo and Nayarit) with different migratory patterns in terms of the type and size of households and their remittances flows.

6.2 Migration and economic change

Tomás Calvo and Gustavo López (1988) note that, traditionally, the west-central region of Mexico—comprising the states of Jalisco, Michoacán, Colima, Aguascalientes, Guanajuato, Zacatecas, and San Luis Potosí—have played a very important role in contributing migrants to the U.S. labor market. This research also highlights that rural communities with a long history of migration exhibit the same business cycles as the rest of the economy. Over time, economic conditions have improved but not enough to halt the population flow going to the United States because, as has been demonstrated, the flow responds to labor-market needs in both countries (Arroyo et al: 1990). A notable characteristic of these communities is that many offer their residents few alternatives, in terms of employment, education, and other indicators of well-being (Arroyo et al: 1990). Moreover, that situation has gotten worse with Mexico's ongoing economic crises.

Wayne Cornelius (1989) showed that the 1986 Immigration Reform and Control Law (IRCA, also known as the Simpson-Rodino Act), which aimed to restrict employers from hiring migrant labor, not only turned out to be unworkable but also had effects contrary to what had been intended. Among these effects were an increase in the number of Mexican migrants coming to the United States and in the numbers who were legalizing their status, and using the family reunification process, that of their relatives.

After the 1980s, the trend was toward greater diversity and geographic dispersion among Mexican migrants. Research shows that migrants do not necessarily belong to the poorest families in their communities (Arroyo et al. :1990). Additionally, agricultural activities, which traditionally employed immigrants in the United States, have diminished in importance as the migrant labor force increasingly participates in the industrial and service sectors (Cornelius: 1991).

In general terms, these studies have highlighted the most significant changes since the beginning of the 1980s: (1) the incorporation into the migratory flow of communities of origin that previously had not experienced high levels of migration; (2) greater participation of skilled workers; (3) an increase in migration by women and children; and (4) a change in pattern, from temporary to more permanent migration, with ever more choosing migration as a life option rather than merely a temporary remedy.

Other work has shown that in communities with a long history, the process is fully institutionalized, and these settlements have slowly begun to specialize in the production and reproduction of migrant workers. With that comes the tacit understanding that if women were not remaining behind to manage the household, migration would be impossible or would encounter serious problems (González de la Rocha: 1989).

During the 1970s and 1980s, scholars did important research in western Mexico on the economic impacts of migrant incomes on the communities of origin (Díaz-Cañedo: 1984; Reichert: 1981; Mines: 1981; Wiest: 1973; Dinerman: 1982; López: 1986; Alarcón et al: 1987). That work led to the following conclusions: (1) The income earned by migrants improved the standard of living, in quantitative terms, without generating growth in the local economies; (2) the priority investment for migrants was purchasing or building a house; (3) migration to the United States led to social differentiation; and (4) a “migration syndrome” exists, which perpetuates this social process.

In the particular case of Los Altos de Jalisco, several authors found that the resources sent by the migrants made it possible to purchase of land and livestock, improve the family’s residence, educate the children, and above all, maintain the household (Orozco: 1986; Newby: 1994; Vega: 1994). Remittances have let the price of land remain high, due to the continuing demand for it. These resources have also let the traditional structures of domination continue, by reconstructing the old systems of land management (tenant farming, usurious loans, and patron-client relationships), which have

low returns, but are a safe investment (Martinez: 1985; Vega: 1994; Newby: 1994).

Other work has concluded that in Los Altos de Jalisco, the migrant forms part of an economic strategy to provide the family with income and to achieve certain shared objectives, such as meeting expenses and paying debts, expanding productive resources by purchasing land and livestock, and satisfying the demands of consumption at critical moments in the family life cycle. Thus, the family ensures its own reproduction as the economic and social unit, through temporary migration by one or more of the family's members (González de la Rocha: 1989).

The focus proposed here rests on the assumptions summarized above, but it emphasizes that, in addition to the deepening of social differentiation, migration and the communities involved in it put their own stamp on this process. In that sense, change or development is not viewed as a uniform or unilinear process. On the contrary, it is a multivariate phenomenon, in which social actors play a fundamental role, as shown below.

6.3 Population, migration and the economy in Jalostotitlán

As is true for most of the communities in Los Altos de Jalisco, the *municipio* of Jalostotitlán has a population that is largely *criollo* (that is, of European and indigenous descent) and most of its land is held privately (rather than in *ejidos*, a form of communal landholding widespread in Mexico). Jalostotitlán is known for its dairy farming and also for grain cultivation, particularly corn, and its home-based needlework shops.

Temporary and permanent emigration to both central Mexico and *el Norte* (the North), as the U.S. labor market is popularly called, also characterize Jalostotitlán. According to Wayne Cornelius (1976), the migratory process in this area began around 1884, when the railroad connected El Paso, Texas, and Mexico City. In the first decades of the century, recruiters drew campesinos from towns like Arandas, Jalostotitlán, San Miguel El Alto, Jalisco to work in the

United States as railroad laborers, agricultural workers, steel workers, and coal miners (Alarcón: 1991).

From the 1960s on, mass migration has been so widespread that the youth in the region have come to view “making dollars” as a profession. Juan Luis Orozco (1986) noted that migration burdens the women left behind with more work and responsibilities in addition to what they already shoulder. As a result, the care and education that they can provide to their children declines appreciably in quality and quantity. Many marriages face crises because adultery increases. However, it cannot be denied that the income from the United States helps to pay for the children’s education, makes it possible to buy land and cattle, helps to cover repairs to the house, and above all, supports the family.

For another thing, the importance of Los Altos de Jalisco as a workforce provider for the U.S. labor market became evident in 1988, when both U.S. and Mexican Catholic Church officials agreed to open an office in a town in the region that would advise migrants seeking to legalize their status through the Special Agricultural Workers (SAW) program, part of IRCA. It is important to note that apart from the office in Los Altos, only two others operated in all of Mexico.

The *municipio* of Jalostotitlán has about 28,110 inhabitants (Mexican Population Census: 2000). Only one town, the municipal seat (also called Jalostotitlán), has more than 1,500 people, and it is home to more than half of the *municipio*’s entire population. The remainder of the inhabitants are scattered throughout 124 settlements, called *rancherías*. The demographic concentration in the municipal seat is due to the services offered there (schools, doctors, telephones, businesses, banks, offices, jobs, and so forth). Since they spend most of the day working their land, many campesinos have homes in the municipal seat only for reasons of convenience.

Census data suggest a slow decline in the numbers employed in agricultural activities in this *municipio*. Although it is true that a considerable percentage have left because of the economic crises and the ongoing migration by the people, it is also true that Jalostotilán began modernizing in the 1970s, particularly after the introduction of tractors and an increase in irrigated land (of 52,106 hectares or 128,756 acres, only 5% is irrigated). Today, agricultural activities continue to be important as various establishments that offer their services in the municipal seat are involved in agriculture and the dairy industry, such as, for example, veterinarians, and stores selling feed or agricultural products like fertilizers and pesticides.

Given the importance of agricultural activities to the *municipio*, it is not surprising that the businesses employing the residents of Jalostotilán are essentially three milk bottlers (Nestle, Pureza, and La Campiña), three feed stores, and a shop making cheeses and cream. Additionally, sixty workshops manufacture industrial work gloves and women's shoes, and the textile industry in the adjacent *municipio* of San Miguel also employs many of Jalostotilán's residents.

Since the 1940s, most households in Jalostotilán have been involved in doing needlework and garnetting for the industries and merchants in San Juan de los Lagos, San Miguel el Alto, Guadalajara, and Aguascalientes. These jobs employ primarily women, and they are paid very poorly and have no employee benefits. However, these wages, despite being low, are an important support when the men are not present or when their remittances are sporadic or insufficient to maintain the family.

Savings accumulated while working the United States have provided financing for some of these glove and shoe-wear workshops. However, our survey did not report any cases of this type of investment, since almost all of these shops are located in the municipal seat. Some of the establishments that sell livestock feed and most of the agricultural activities rely on local capital, but the milk bottlers have depended on foreign investment.

Municipal authorities commented during our fieldwork that the construction of artesian wells was negotiated and, in many cases initiated, by *norteros* (migrants who work in the United States), who upon returning to their communities of origin invested a part of their savings in building these wells to provide water to their ranches. Similarly, many farmers and cattlemen never receive loans from the official financial institutions. In most cases, the performance of agricultural tasks, the purchase of inputs and equipment, and the payment of wages rely on savings made while working in the United States. This type of economic behavior is explained in part by the migratory strategy of the household. Households involved in migration have tended to develop a two-pronged strategy that enables them, on the one hand, to send members to the U.S. labor market and, on the other, to support, administer, and develop various socioeconomic tasks in the community while migrant members are absent. Evidently, the support of other members of the family has played an extremely important role, without which the migrant members of the household would have had difficulty continuing to go to the United States to work.

6.4 Migrant dollars in Jalostotitlán

In both Jalostotitlán as well as other settlements in Los Altos de Jalisco, after the passage of IRCA, a rumor spread that this amendment to U.S. immigration law would lead to a massive deportation of migrants. As those people returned to their communities of origin, the thinking went, the “migrant dollars” would diminish. Some women mentioned that they had gone several times to the shrine in San Juan de los Lagos, the second most important place of pilgrimage in Mexico, to ask the Virgin not to expel their husbands from *el norte*, because if those men were unemployed, “Who would support the family?” Our survey recorded, in winter 1989, that of 380 migrants, 38.4% were still in the United States. A similar percentage (35.5%) was only home on a visit. A handful of migrants had returned because their contracts had run out (5.5%), or because the U.S. immigration service had apprehended and

expelled them (2.1%). An essentially insignificant percentage had come home after not finding work (0.8%).

As most of the migrants are undocumented (63.4%), a large percentage decided not to visit their communities of origin out of fear of being deported and losing their jobs by not being able to return. Despite that, old migrants commented that this was not the first time that the *norteños* faced the threat of deportation, and they claimed that, “as long as the *gringos* want to buy cheap products; there you will find us Mexicans, working even under bad conditions and for terrible wages.”

Surprisingly, the implementation of IRCA did not substantially alter the sending mechanisms nor the amounts sent (see Table 6.1).

Table 6.1: Changes in amount of dollars

No change noted	50.5%
Does not receive remittances	43.4%
Receive less now	2.4%
Receive more now	3.7%

Source: Altos de Jalisco Survey 1990, COLEF.

It is worth emphasizing that since this question was also asked of household without any members working in the U.S. labor market, it could mean that for almost 84 percent of families IRCA did not substantially change the amount of dollars that regularly arrived in their homes, basically because these members have continued working in their old jobs. Even when asked about the change in the use of dollars, 43.4% of the families interviewed affirmed that that had not noticed any changes in this regard, 56.2% answered that the dollars are only used for household subsistence 92.5% use the remittances for the subsistence, and only one family claimed that now, with the passage of IRCA, they no longer get dollars.

Moreover, Mexican and U.S. public opinion generally assumes that Mexicans seek work in the United States because their communities of origin are underdeveloped and, more recently, the economic crises have condemned them to poverty and unemployment. In that context, it is supposed that in the

medium term, the money sent by migrants would eliminate the causes of the migration itself because some migrants would become small business owners or, benefiting from local entrepreneurship, they would cease to turn to the U.S. labor market as jobs become available in their home community. The data from our survey, however, indicate that most of the money that the migrants send to their households is used primarily for the economic support of the family, home improvements, and to a lesser degree, productive investments (see Table 6.2).

Table 6.2: Number of People who send Remittance and their use

Household subsistence	92.5
Clothing purchases	2.2
Other uses (savings, debts, medical, etc.)	5.3
Total	100.0

Source: Encuesta Migración Altos de Jalisco 1990, COLEF.

These data suggest, moreover, that after several decades of migration to the United States, Jalostotitlán has not developed real alternatives to international migration. On the contrary, slowly, this community has been adjusting its economy, social organization, and culture to allow for the generation and reproduction of an ever greater number of migrants.

It is worth pointing out that the income that migrants send goes essentially to reproduce the migratory labor force (table 6.2). “Household subsistence” for the families of Jalostotitlán means buying food and paying utility bills (electricity, water, and gas). This category also includes the purchase of school supplies and medicine when a family member is ill. Moreover, most families own a few chickens and a pig or two, and although feeding those animals is usually a minor expense, the purchase of feed must still come out of the “household subsistence” budget. Resources that fall under the category of “subsistence” are also used to cover clothing, shoes, and transportation. The families in Los Altos de Jalisco “stretch” their already meager incomes to take part in service projects in the community, directed at helping the needy, or to contribute to defraying the costs of religious festivals. These resources are also

used for home improvements, especially during the town's fiesta or when the *norteños* return home. Thus, the remittances sent from the United States combined with the precarious earnings obtained in home-based sewing workshops or agricultural day labor makes it possible to continue investing in the reproduction of the migratory labor force.

The survey reported that 88% of the migrants from Jalostotitlán remit using money orders. The quantity and frequency of sending varied, individual by individual, and depended, in most cases, on the work that the migrant did, the duration of the migration, and the number of members that were participating in the labor force. The information taken from the questionnaire indicates that, on average, the migrants from Jalostotitlán remit a little more than US\$50 on average per month. Of the migrants, 62.6% send money sporadically, and only 29.5% do it regularly (that is, on a monthly basis).

6.4.1 The uses of remittances in housing

Even though remittances sent by migrants are destined primarily for household subsistence, it is apparent that most of the houses, land, and livestock have been purchased with income from work in the United States.

Given the heavy involvement of the residents of Jalostotitlán in the U.S. labor market (as is true for the residents of most of the towns in Los Altos), houses and land are appraised in U.S. dollars. Thus, for example, a house located in the municipal seat is appraised at US\$20,000 to US\$35,000. Land prices fluctuate based on location and the type of services available. During January 1989, a teacher in the municipal seat noted that her parents had received an offer of US\$50,000 for their house. Her father found the offer very appealing because for that amount of money he could buy two apartments in Guadalajara. However, he could never buy a similar house in Los Altos de Jalisco given the increase in house prices. The houses in this area make for a good investment especially if inflation rises or if the peso suffers a similar devaluation as in 1994. According to Gutierrez (1985), migrants remit

US\$500,000 per month and this figure is in part responsible for the housing and land speculation that has led not only to an uncontrolled rise in real estate prices, but it has also stimulated the construction sector, causing an influx of bricklayers from other towns. Land speculation has brought with it heightened social differentiation in Los Altos de Jalisco because it has reinforced the environment of domination by the oligarchy that base their power and control on landholding (Alarcón et al: 1990).

Regarding house and lot ownership, of 297 families interviewed, 83.8% said they live in their own home; 4.7% rent, and 11.4% reside in houses that someone has lent them, usually in places that would otherwise be vacant because the people who had lived there have migrated. During fieldwork in the area, there were more than fifty empty houses, and an even greater number were being built which leads us to believe there is a lot of land and house speculation. On the other hand, the design and part of the material employed in house construction reflects the presence of people with work experience in the United States. A good example of this is the *ejido* of Los Azulitos, in the neighboring *municipio* of Lagos de Moreno. Encrusted in the floors of hallways in many houses are U.S. pennies in the shape of a cross, placed there to show that the house was built with money earned in the United States (Alarcón, et al: 1987).

It is important to point out that of 280 houses that the surveyed respondents claimed to own, 72.9% were acquired through real estate transactions, and only 27.1% were inherited. Of the 204 houses purchased homes, 53.4 % were bought with savings from working in the United States. Frequently, after some time working in *el norte*, migrants invest their savings by purchasing a vacant lot. Then, little by little, with successive savings, they build their houses. To lower construction costs, members of the family regularly participate in the building project. Obviously, both the completion of the houses and the acquisition of other goods depend on the type and duration of a migrant's job in the United States.

6.4.2 The uses of remittances in agriculture and livestock

Ranches and livestock are also appraised in U.S. dollars. During the famous *tratadas* (negotiations to buy and sell goods) the people of Los Altos haggle over price. Although not everyone has dollars, most goods are priced in American currency. Ultimately, however, the main beneficiaries of the flow of dollars in the region are trades-people, land owners, and event organizers (for dances, rodeos, horse races, and cock fights). Although spending for these special events may be onerous for members of the community, such spending is also a mechanism for injecting money into the region, for creating jobs, and for making savings possible.

Investment in agriculture and livestock has occurred in two ways: directly, through the purchase of land, livestock, and agricultural equipment; and indirectly, by maintaining the families who do agricultural work, which seemingly does not generate income. In this connection, the money sent from the United States functions as a subsidy enabling these activities to continue. In Jalostotitlán, agriculture and its related activities are still the cornerstone of the economy, and income from the United States keeps it that way. For their part, earnings from agriculture and livestock often cover some of the costs of the migration itself. In general terms, the prolonged crisis that rural Mexico experienced meant that for many farmers and ranchers, agriculture and livestock have ceased to be good businesses, since the cost of inputs has increased while the price of agricultural products, including milk, have been subject to official control. Faced with that situation, many campesinos have chosen to reduce or stop altogether growing corn, since they now believe that earnings from that crop will not compensate them for their investments in terms of time and money. In the face of this adversity, some livestock producers have increased their cultivation of corn, but only to feed their animals. For their part, people with ties to agribusiness, who generally have access to water, have attempted to reduce the cost of maintaining their herds of livestock by growing

alfalfa, oats, and fodder, and by increasing the area under cultivation on rain-fed lands.

During the economic crises, some producers have had to sell off part of their herd because they cannot maintain it during the dry season, since they do not have natural pastures and they must buy balanced feed, which bleeds their own household finances. Some campesinos have even chosen to change their livelihood activities. As one dairy farmer in Jalostotitlán said, “It is more productive to make a fixed-term banking investment than to fritter away your money maintaining animals that don’t turn a profit.” The low agricultural productivity explains why more than 20% of the landowners rent their property or share it with tenants, and why more than 51% of the migrants do not own land. In addition, the scarcity and high price of land make agricultural investments unattractive for those who have little in the way of savings in the first place. The few remaining farmers continue in agriculture not so much because of its profitability but as a fundamental way of life in the region.

In general, the size of individual property holdings is extremely small. Of 133 parcels that respondents in our survey identified, most (57%) were smaller than 6 hectares (15 acres); 29.3% were ranches ranging in size from 7 to 20 hectares (16 to 50 acres); and only 12.8% of the survey respondents owned more than 20 hectares. However, in a semiarid region, which barely supports the production of basic grains, even 20 hectares is not much, since most of the land is rain-fed: 68.4% and 12% is rangeland. Only 10% is irrigable. That is why parcels on the edges of the settlements fetch a better price as housing lots than as agricultural land. Of the percentage corresponding to the purchased lands (89 plots in total), 69.7% were acquired with savings from work performed in the United States; the remainder (30.3%) were purchased with money obtained elsewhere in Mexico.

Of 297 families interviewed, 55.2% did not have any agricultural land. These are precisely the households that send the greatest number of family members to the United States. These are also the households that have the

highest number of members participating in agricultural wage labor, such as harvesting and milking. Of those who own land that can be cultivated (44.8%), only a very few—ten—owned more than one piece of property. In approximately 90% of the cases, both for reasons of tradition as well as of economics, at least one member of the family works the land.

Regarding landholding among migrants, an analysis of a sample of 380 individuals with recent migratory experience showed that 51.8% do not own land. Another 24.7% owns land or has access to family land; 13.9% are tenants; and the remaining (9.5%) are agricultural day laborers in the communities of origin. The first 3 relate to landholding, but the final one does not. The “tenants” and the “day laborers” do not own land, and therefore, should also be counted in the “51.8% who do not own land”. On analyzing the type of jobs that this population held before deciding to migrate, it turns out that 55.2% worked as day laborers. These data are very significant. Of the 133 parcels that the survey respondents identified, 67% were acquired through real estate transactions, and 33% by way of inheritance which historically has been a “natural” mechanism for sharing and recovering property. And even though this process of subdividing land has been continuous, speculations has meant that only a few fortunate individuals have access to quality land. On the other hand, owning land has not stopped the migration from Jalostotitlán since the need to equip and stock the lands motivate the people to go to *el norte*. Owning land and livestock involves expenditures. The ranchers from Los Altos found temporary migration to be an ideal mechanism for allowing them to continue to ranch, since the savings from the United States help to finance agriculture activities, and the earnings from those activities are frequently used to support more migration.

6.4.3 The uses of remittances in business formation

Given this context, investment in business takes on an enormous importance when one takes into account the number and respective percentages of ventures that started with income earned in the United States.

However, one must consider that due to the rural character of the region, and small size of the settlements, most of the investment with migrant dollars has gone to small grocery stores or small businesses that do not require large investments. These tend to be managed by family members and do not require ongoing re-investments. On many occasions, these businesses, rather than being an investment, constitute a mechanism for savings; albeit one that now and again generates small profits. Thus, of the seventy “businesses” declared by the families surveyed, 41.4% were launched with funds earned in the United States. The survey, however, included just four small rural communities; a different situation exists in the municipal seat and throughout the region overall. Moreover, given the high concentration of services and merchandise sold in Jalostotitlán, one can consider these *rancherías* as appendages of this *municipio*’s urban area, which explains the scarcity of businesses in those four communities. It is not surprising that the residents of these four *rancherías* rely on the services and merchants in Jalostotitlán rather than attempting to duplicate what is already available there and elsewhere in the surrounding areas in the region.

6.5 Conclusions

From what has been discussed, it can be asserted that the income from migration, rather than serving as a source of capital to reinforce the local economy, has served to motivate more people to migrate to the United States as the people have become more dependent, over time, on the income from *el norte*. The migration experience itself has aroused the people’s interest in improving their standard of living. Moreover, those who have had access to wages in dollars do not want to return to working for Mexican pesos.

Historically, the migratory process in Jalostotitlán has involved at least four generations of smallholders, tenant farmers, and day laborers. Migration has constituted a survival strategy for the people of Los Altos de Jalisco in their struggle to find equilibrium between the growing population’s demand on resources and the supply of those resources. To the degree that the area

studied is in one of the *municipio*'s most depressed regions, it is not surprising that those who do not own land make up the largest percentage of migrants. The survey data revealed that the concentration of landholdings has recently sharpened (in other words, there is a consolidation of the local oligarchy), the region does not generate enough jobs (underdevelopment), and the birth rate in places like Jalostotitlán is continuing to contribute population to the surrounding urban centers and certain communities in the United States. Resources from the United States have served to support and consolidate the structure of oligarchic domination by groups that own property and control strategic resources, such as land and agricultural inputs. These power groups are precisely those who are most interested in perpetuating migration, since the migrants return with an ability to buy and invest that they did not previously have, and those dollars end up in the pockets of the oligarchy in Los Altos de Jalisco.

All of this indicates that for a long time to come, the funds earned in the United States will be destined to support the migrants' families. In this sense, the proposition that remittance might help to reactive or develop local economies is still only a dream. This is essentially because saving money is very difficult since the jobs that Jalostotitlán's migrants hold in the United States are poorly paid and the migrants, even though they earn dollars, must also spend dollars to survive while living in *el norte*.

Moreover, investment in productive activities within Jalostotitlán is risky and poorly remunerated in comparison to the wages that can be earned in the United States. The rural area of Jalostotitlán is not an attractive place for investment and a good part of the population spends most of the year in the United States. Therefore, communities such as the *municipio* of Jalostotitlán, will increase their role as producers and reproducers of manpower for the U.S. labor market as long as that market remains open to a population that not only is willing to accept low salaries but that, moreover, views migration as "the profession of earning dollars."

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CHAPTER 7: THE ECLAC REMITTANCE CASE STUDIES: LESSONS AND EVIDENCE

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7.1 Introduction

At the beginning of the new millennium, Latin American and Caribbean migrant remittances are generating enormous interest. Several pieces of evidence have led to the widespread perception that remittances constitute a development opportunity for the region: Remittances are growing at a dizzying pace; the flows are remarkable for their size; and in several nations, the macroeconomic impact has been considerable. When evaluating policy recommendations, those facts have many implications, the first of which is the need for suitable evidence about the effect of remittances on recipient families and the migrants' communities of origin. In turn, any successful policy recommendation will have to recognize current development conditions and the context in which international migration is occurring.

The Economic Commission for Latin America and the Caribbean (ECLAC) did research at the end of the 1980s and throughout the 1990s that offers a set of arguments and recommendations about remittance policies. This body of work sought to collect evidence in a Latin American sub region and to recommend a set of "best practices," while recognizing the limitations to implementing them. In an attempt to get the big picture, the studies analyzed remittances in the context of both local and national development and conceptualized them as being an integral part of the consolidation of emigration trends already underway.

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This chapter briefly examines these studies. It seeks to highlight the utility of the research, the difficulties in interpreting some of the results, and—given today’s simplistic and impulsive moves—the pertinence of many of the proposals. Although they may have been overly specific, incomplete, or infeasible, these proposals nevertheless constitute reference points that we must keep in mind, and they offer us important lessons.

7.2 Background

The region’s governments and some international agencies generally believe that remittances contribute to development. However, we must analyze that assumption critically and constructively. A reference to remittances and development assumes a specific field of study that talks about a phenomenon that forms part of the inequalities and exclusions that current development patterns bring in their wake. Several events intersect, including state reforms in the social arena, financial actors’ interest in an up-and-coming enterprise, and the potential of remittances for household well-being and poverty reduction. Remittances can alleviate poverty, but they are not a factor in development given the living conditions of much of the recipient population. We cannot disconnect the examination of remittances from migration (in its multiple dimensions) and we should make a distinction, at minimum, between a policy perspective (the realm of government) and an academic perspective (held by researchers).

The region receives huge remittance flows from the United States, Canada, Spain, and Japan, the major destinations for Latin American and Caribbean migrants. Worldwide, the region *ranks first* in remittance receipts (approximately US\$45 billion in 2004) making it the largest market in terms of both the absolute amounts transferred and growth (<http://www.iadb.org/mif>; Solimano: 2003a). The ECLAC group took a first look at this topic at the beginning of the 1990s, when its studies estimated the size of these flows during the 1980s and discussed the outlook for remittances. The Central American data, although imperfect and approximate, heightened awareness

among the region's social actors about the magnitude of and potential for remittances (CEPAL: 1999b, 1991b). Today, we know that the flaws in measuring remittances and the gaps in knowledge about their use by households must be overcome, using the recommendations made by organizations specializing in development.

The impact of remittances on development, growth, savings, basic consumption, small-scale investment, and poverty have been the major themes guiding efforts to describe, analyze, and debate the transmittal, measurement, and use of these flows into the region. Although these studies at times lacked rigor and depth, best practices do exist for specific national situations and, more recently, at a regional level.

Among the regional best practices are initiatives that the Inter-American Development Bank (IDB) through the Multilateral Investment Fund (MIF) has undertaken since the beginning of the current decade. A cluster of projects (Remittances as a Development Tool) has aimed to increase remittance flows to the region by reducing the cost of sending money and seeking to enhance their development impact. Simultaneously, the projects aim to perfect the regulation and supervision of personal savings and of microfinance institutions, so that they are better positioned and can offer financial services to people with savings. Characteristically, this involves supporting the creation of investment funds that would utilize emigrant capital to launch new enterprises and for other innovative applications. These efforts also recognize the need to promote financial education and to enhance the impact of remittances by offering the recipient families and their communities more financial options. The IDB has done studies and sponsored conferences as well as financing project to increase the competition and thus diminish the costs of remittance transfers (BID: 2001).

Latin American analysts have leveled criticism at this regional organization's remittance initiatives. Critics argue that e migration and remittances run the risk of distorting and impeding local and regional

development (Binford: 2002). Additionally, the persistent notion that migrant-emitting countries can rely on remittances to finance development ignores an interpretation that sees remittances and migration as a symptom of the absence of government involvement and private investment (Canales: 2004). This new debate is interesting and necessary, and the issues are part of a transition that the remittance experiments, the responses of the countries, academic contributions, and in particular, the growing participation of the development banks are now undergoing.

As an object of study, remittances will continue to be an area of great interest in coming years, and the points of view are unlikely to converge. However, decision makers seem to agree about the need to continue making efforts to reduce money-transfer costs, stimulate the participation of banks, improve the way flows are measured, and in general, to increase the remittance amounts. This is where many questions need to be answered sooner rather than later. For example, in designing anti-poverty interventions, multiple intersections exist with remittances, and several still need to be explored. Obviously, in this regard, it is advisable to take a comprehensive look at development, remittances, and migration rather than drawing definitive conclusions.

7.3 Effects of the ECLAC Remittance Studies

The ECLAC research did not attempt to be academic in nature or to discuss theory, and it can be summarized in a few points:

First, the studies not only pioneered a new field, they filled an information gap on the use of family remittances in the region's principal receiving countries. They unfolded in a context of harsh economic regression and stagnation, accentuation of societal backwardness and just as migration to the United States and other countries outside the continent was increasing.

Second, the studies showed that remittances are a very important resource for poor families but are not a "direct" solution to poverty. The studies empirically addressed how poverty intersects with the household, the family

economy, and the status of women. Governments have yet to respond convincingly to these aspects, but they are critically important and justify not only continuing to research them but redoubling that effort.

Third, the studies explored money-transfer costs and estimated the amount of international remittances and their impact on economics. That is perhaps the best-known aspect of this phenomenon, and today, it has inspired the most highly developed nations (the Group of Eight or G8) to make a commitment to decisively support transparency in the remittance markets.²

Fourth, without ignoring certain interpretative inconsistencies, these studies examined the possibility of using remittances productively. They suggested actions to be taken, while illustrating the specificities and differences between countries, paying attention to the migrant associations and their local counterparts, examining proposals to encourage the productive use of remittances and crucial problems in that area, as well as identifying projects and recommendations for finding opportunities for productive uses, which, in general, continue to be valid today.³

Fifth, the studies supported important premises about the effects of the remittances: (1) Interventions to increase the effects of remittances on the household economies must respect the interests of the receiving families. (2) Migrants make huge sacrifices, both materially—because of the capital required to make the trip—as well as personally. They face great hardships and humiliations, suffer extortion, and have difficulties in adapting to the destination society and in entering its labor market. Often, they work under conditions that the citizens in the host country have rejected. Added to that is the risk of family

2 The G8 initiative is part of a poverty-eradication plan, which includes establishing the *International Working Group to Improve Remittance Statistics*, led by the World Bank (see <http://www.worldbank.org/data/remittances.html>). The project is in the framework of the G8 countries' commitment to lower the costs of money transfers. The Working Group's three main objectives are to propose a standardized definition for remittances, produce guidelines and recommendations for compiling data on remittances and estimating the size of flows, and proposing the creation of matrixes for the origin and destination of remittances.

3 The Dominican Republic was also included for an exploratory evaluation of the feasibility of some of the initiatives (CEPAL: 2000d).

disintegration and the additional burdens on the women who do not migrate, as well as the effects on the children left behind. (3) Remittances are part of the migratory process and, as such, their growing amounts should not permit the governments of migrant-sending societies to evade their social responsibilities. Remittances should be viewed as being complementary to, but never a substitute for, the development efforts that all these societies have before them.

These studies, focused on Central America, took place throughout the 1990s. The first phase studied El Salvador, Guatemala, and Nicaragua; Honduras was added in the second phase. The results of the first phase indicated that remittances potentially contribute significantly to raising standards of living for the recipient households, the heads of which are primarily women. For the most part, older adults receive this money. The surveys in the first phase showed that approximately 85% of family remittances are used for basic consumption, 6% for health care and education (investment in human capital), and 3% for acquiring household items. Regarding saving and investment, the remaining 6% was used primarily to purchase a home or enlarge or otherwise improve the residence (Serrano and Martínez: 2002).

These studies immediately brought to the table what would become one of the thorniest issues concerning family remittances: They could be used *productively*, in that they were a resource for buying land, animals, and machinery, but this use-category was proportionally very small (Serrano and Martínez: 2002).

In response to demands by the countries, the next phase of research, at the end of the 1990s, turned to the productive use of remittances. Evidence suggested that family remittances could serve to finance house purchases or repairs, which the surveys showed to be the highest percentage within the investment category. Moreover, researchers kept in mind that only a small percentage was used for financial investments because such uses “frequently faced disincentives given the negative real interest rates and the inaccessibility of the banking system” (Serrano and Martínez: 2002). Thus, it was concluded that “the expectations centering on micro enterprise do not seem to have been

met, whether due to the lack of truly effective support for its development, shortcomings in entrepreneurial capacity in the receiving families, or above all, limitations in market viability in these permanently depressed economies or in sectors of these economies.” This provided full justification for focusing on remittances or donations sent by migrant associations, a commitment of solidarity with their communities of origin that is made despite the risk of the investment. This represented a potential yet to be explored (CEPAL: 2000a, 2000b).

During the discussions about the studies, Mexico was included. It was decided that strengthening public and private support—above all, financially, administratively, and technically—was needed to encourage using remittances for productive investments. Nevertheless, inconsistencies existed. In that regard, there was agreement about the pertinence of establishing educational and training programs for both the relatives and the immigrants themselves. In turn, concerns continued over the need to reduce the high costs and commissions that electronic-transfer companies were charging, and researchers noted the difficulty in finding a viable mechanism to link prospective savings to productive investments (CEPAL: 2000a). The investigation on productive uses thus turned to the great potential for using collective remittances from migrant associations in destination countries. The associations were playing a decisive and proven role in the construction of basic infrastructure and equipping health-care centers and schools. In short, the associations were creating social infrastructure, sparing many local governments from providing it themselves (CEPAL: 2000a; Serrano and Martínez: 2002).⁴

4 Participants in a meeting in Mexico noted the existence of several programs for the productive use of remittances, such as the Three-for-One Program and the *Mi comunidad* (My Community) Program: “Given the great potential for agricultural and ranching development in rural areas with high emigration, the rural development experiments merit special mention, among which are those that link remittances to farm support (*Procampo*)” (CEPAL: 2000, 9; Torres: 2001).

7.4 The first phase of the Central American remittances project: Family remittances

ECLAC's first major project on remittances began at the end of the 1980s. The *Proyecto remesas y economía familiar en Centroamérica* (Central American Remittances and Family Economy Project) aimed explicitly to evaluate the socioeconomic impact of remittances on poor families in El Salvador, Guatemala, and Nicaragua. Based on the assessments obtained and using the terminology of the period, an attempt was made to design tools and measures to help channel remittances in a way that would increase productivity among the poor. Additionally, actions to encourage the use of remittances for social purposes were proposed, even though the project's central focus was the evaluation of the impact on the family economy in remittance-receiving households. Special attention was given to women as remittance recipients, headed by a study on El Salvador at the end of the 1980s (CEPAL: 1988).⁵

In brief, this project tried to highlight the need for awareness about family remittances and their socioeconomic repercussions for the people Central America. A specific study was done on each of the three countries followed by an integrated regional report (CEPAL: 1991b, 1999a, 1999b).

7.4.1 Estimates of Remittance Amounts

Based on different processes for collecting and analyzing the data, remittance volumes were estimated for each country. For example, experts and agents involved in transferring international remittances or in their use and channeling were consulted. Weaknesses in the sources of information, and doubts regarding reliability, led to considering alternative estimates of the

⁵ Segundo Montes 1988 analyzed the results of a sampling survey (a little more than one hundred rural and urban families with relatives in the United States, and his analysis showed that remittances do not compensate for the loss of human capital. Remittances, certainly, are recognized as a centrally important macroeconomic variable as well as being a central support mechanism for the survival of extremely poor families and an element that contributes to the reorganization of the family budget. Regarding that last point, women take on new social roles that are apparent in receiving the transfers and distributing them in a way that best serves the family's well-being (CEPAL 1988).

macroeconomic impact of remittances and to the creation of specific surveys. In El Salvador and Guatemala, estimates considered only remittances coming from the United States, in contrast to the Nicaraguan study, which counted all international remittances (CEPAL: 1991b).

Based on 1980 U.S. population census data, it was assumed that 75% of the Salvadorans in the United States sent remittances and, during the 1980s, 80% of El Salvador's net emigration went to the States. In 1989, the country received about US\$759.4 million (CEPAL: 1990). The Nicaragua study combined methodologies. Direct research was based on data from official money-exchange firms, courier companies, and people who travel abroad to locations where Nicaraguans congregate. Specific surveys (Remittances and Family Economy) were conducted by the School of Sociology at the *Universidad Centroamericana*, and a parallel survey was run by the *Instituto de Estadísticas y Censos* (Statistics and Census Institute) in Nicaragua. Results indicated that approximately US\$59.8 million was remitted to Nicaragua in 1989 (CEPAL: 1991a). The researchers estimated Guatemalan remittances by considering the number of Guatemalans in the United States and variations in the exchange rate, rate of inflation, and nominal wages. Calculations excluded non-monetary remittances and the income of seasonal migrants. This resulted in two hypothetical scenarios—one positing low and the other high rates of emigration to the United States—leading to the conclusion that remittances in 1989 ranged from US\$248 million to US\$375 million (CEPAL: 1991b). This information immediately generated a lively interest in remittances.

The estimated size of the flows shown in Table 7.1 pointed to the enormous macroeconomic and social potential of remittance flows.

Table 7.1 Central America (selected countries): Emigrants in the United States and international remittances, 1980-1989

Years	El Salvador		Guatemala		Nicaragua	
	Emigrants (people in thousands)	Remittances (dollars in millions)	Emigrants (people in thousands)	Remittances (dollars in millions)	Emigrants (people in thousands)	Remittances (dollars in millions)
1980	170.0	73.8	212.5	107.6	46.7	11.0
1981	246.1	114.3	235.0	119.0	57.0	13.4
1982	355.4	169.7	257.5	130.4	67.2	15.8
1983	417.1	201.3	282.5	143.1	79.4	18.6
1984	464.0	263.6	130.0	156.5	96.8	22.7
1985	507.5	231.5	340.0	171.6	117.0	27.4
1986	551.9	306.7	375.0	189.7	142.9	33.5
1987	577.4	451.1	412.5	208.7	171.1	40.1
1988	638.9	795.3	455.0	230.2	220.0	51.7
1989	690.2	759.4	500.0	248.1	255.0	59.8

Source: CEPAL: 1990, 1991a, 1991b.

The huge increase in remittances during the 1980s led to an attempt to develop a “preliminary and approximate” estimate of the impact of remittances on long-term economic growth. This was accomplished by calculating GDP trajectories using different assumptions about the evolution of family remittances. Those calculations indicated a major impact on the potential rate of growth in El Salvador. Based on the surveys, the researchers also attempted to calculate the impact of remittances on income distribution. For 1989, average annual household income including remittances was US\$1,200 in El Salvador, with an estimated 633,000 families receiving remittances; \$1,440 in Guatemala, with 172,000 recipient families; and \$800 in Nicaragua, with 75,000 recipient families (CEPAL: 1991b). It should be remembered that, at that time, the average annual income per inhabitant was close to US\$1,500 in El Salvador and Guatemala, and less than \$700 in the other two countries (CEPAL: 2002b).⁶

⁶ Analysis of these situations is a very promising line of research, particularly, the knowledge about the impact of remittances on the income variation by inhabitant. According to the case histories from national household surveys, in the 1990s, the countries in the study, along with Mexico and the Dominican Republic, experienced increases equal to or above 20% in real GDP per inhabitant (seven countries had increases below that threshold (CEPAL: 2002b, table 1).

Regarding the impact of remittances on living conditions, these early studies showed that remittances improved the levels of consumption and, according to the definitions employed, they strengthened the potential for savings and investment. However, clearly, the effects depended on the amount of the remittances and on the gap in satisfaction of basic needs (CEPAL: 1991b). It was concluded that the positive impact would have been accentuated, as the purchasing power of family incomes deteriorated during the 1980s in the countries studied.

Notably, given the sub regional context of the emigration, researchers recognized that they must conceptualize remittances as being a result of crises and, consequently, they would constitute a link in a migratory chain that frequently ends in family disintegration and a nation's definitive loss of human resources (CEPAL: 1991b).

7.4.2 International Migration and the Family Economy⁷

Approximately 85% of the total remittance money received in the households studied went to basic consumption. In two of the three countries, researchers asked about the structure of family spending, and they learned that only a marginal percentage of remittances went to other expenditure categories. El Salvador's pattern was somewhat distinct, with a larger percentage used for potential investments and savings.

Despite findings that remittances were used to buy food and the structure of family spending was essentially the same in the recipient and non-recipient households, the studies came to this notable conclusion: "Remittances strengthen the potential capacity for savings in poor families, savings that may or may not materialize depending on the shortfall in the

⁷ Head-of-household surveys for recipient and non-recipient families were done in each of the countries. Information was gathered on the presence of relatives in the United States, the forms of family organization, the receipt and control of remittance money, the willingness to emigrate, the economic situation for women, the principal occupation of the head of the family, impact of the remittances on the work activities of household members, amount and frequency of the remittances, incomes in recipient and non-recipient families, ownership of goods,

satisfaction of basic household necessities. Thus, particularly in cases that do not represent dire poverty, remittances might make it possible to buy consumer durables and other more sophisticated goods” (CEPAL: 1991b). Table 7.2 compares the pattern of family expenditures in households who receive remittances and those who do not while Table 7.3 shows the pattern of expenditures out of remittance income in selected Central American countries.

**Table 7.2 Central America (selected countries):
Structure of family expenditures in households receiving and not receiving remittances, 1989.**

Country	Total	Consumption	Education and health	Home improvements or business	Savings
El Salvador					
Families with remittances	100	68.5	9.2	16.3	6.1
Families without remittances	100	68.6	8.0	16.1	7.1
Guatemala					
Families with remittances	100	80.2	11.7	3.9	4.2
Families without remittances	100	83.8	11.0	3.5	1.7
Nicaragua					
Families with remittances	100	83.8	5.0	11.2*	...
Families without remittances	100	84.9	5.3	9.8*	...

Source: Data from survey on remittances and household economy in El Salvador, Guatemala, and Nicaragua, May-June, 1990 (CEPAL 1991b).

*Includes savings.

residential moves, the structure of family spending, the principal uses for remittances, and inquiries about their productive use (CEPAL 1991b).

Table 7.3 Central America (selected countries): Principal uses for remittance funds, 1989.

Principal use for remittances	El Salvador	Guatemala	Nicaragua
Food	82.2	84.6	81.5
Education and Health	8.4	3.9	6.1
Household items	2.3	1.7	4.4
Investments**	4.7	6.3	5.6
Savings	1.0	3.1	2.4
Other	1.4	0.4	...
Total	100.0	100.0	100.0

Source: Data from survey on remittances and household economy in El Salvador, Guatemala, and Nicaragua, May-June, 1990 (CEPAL 1991b).

**Includes expenditures to improve a house or residence or for a business or workshop.

Regarding labor-market insertion for heads of household, it was concluded that recipient families differ from non-recipient families. The reasons for this were not investigated, but the comprehensive report mentioned that “information is lacking, which makes a definitive conclusion impossible” (CEPAL: 1991b). Recipient families, compared to those that do not receive remittances, are more likely to have a household head whose principal activity is attending to domestic tasks. This “is explained in part by the larger incidence of female-headed households ... [However,] not all women who became household heads due to migration and remittances now have housework as their primary occupation. Indeed, the difference in the proportions of recipient and non-recipient households with female heads of household exceeds the difference in the respective proportions for families whose household head is dedicated principally to housework” (CEPAL: 1991b).

Table 7.4 Central America (selected countries): Main occupation of head of household, 1989.

<u>Country</u>	Worker or employee	Self-employed	Agricultural worker	Domestic tasks	Other
El Salvador					
Families with remittances	30.0	30.9	10.2	28.0	0.9
Families without remittances	38.8	26.8	15.1	16.1	3.2
Guatemala					
Families with remittances	18.5	43.3	15.7	22.5	-
Families without remittances	31.8	42.7	13.6	11.8	-
Nicaragua					
Families with remittances	44.5	26.0	0.2	18.0	11.3
Families without remittances	50.0	33.3	...	11.0	5.6

Source: Data from survey on remittances and household economy in El Salvador, Guatemala, and Nicaragua, May-June, 1990 (CEPAL 1991b).

As shown in Table 7.4, differences existed in the proportion of wage and self-employed workers between recipient and non-recipient households. Likewise, heads of recipient households are less likely to be laborers or employees. "In El Salvador and Guatemala, the group of households receiving remittances from abroad has a higher proportion of self-employed household heads than in the counterpart group. However, in the data obtained in the Nicaraguan survey, the relationship is the inverse" (CEPAL: 1991b).

The data showed that the poor use their savings most often for housing. Thus, the residence itself, particularly in terms of quality and size but not necessarily in terms of ownership, most clearly reflected the effect of remittances on a family's finances. This was consistent with other studies. Regarding the impact on ownership of other selected goods shown in Table 7.5, the influence of remittances was unclear. In any case, once again, the conclusion was drawn that remittances mostly affect living conditions for poor families, increasing their levels of consumption and strengthening the likelihood of savings and investment, even though, in the opinion of the families, the amounts received impeded the realization of productive investments (CEPAL: 1991b).

Table 7.5 Central America (selected countries): Productive investments and remittances (percentages), 1989.

	El Salvador*	Guatemala	Nicaragua
Households using part of remittances for (in percentages):			
Purchasing tools or equipment	4.2	9.7	1.6
Purchasing land or animals	2.7	7.2	1.2
Building or improving the place of business	2.1	5.0	0.9
Purchasing raw materials	10.6
Other households -- main reason for not investing:			
Not interested in doing so	14.6	41.8	29.6
It would not be profitable	1.4	5.5	1.5
Now is not the right time; perhaps later on	7.9	5.5	7.3
There is not enough money to do so	71.8	45.4	57.2
Does not know how to invest	4.4	1.8	4.4
Total	100	100	100

Source: Data from survey on remittances and household economy in El Salvador, Guatemala, and Nicaragua, May-June, 1990 (CEPAL 1991b).

*Based on data gathered in urban areas.

7.4.3 Income from Remittances

The surveys allowed for the calculation of the average monthly remittance each household received. Table 7.6 shows that US\$100.80 was received in El Salvador, US\$119.90 in Guatemala, and US\$66.90 in Nicaragua, representing between a quarter and up to more than half of the total family income. Regarding frequency, seasonality, and size of family remittances, the responses shown in Table 7.7 indicated that only a few homes receive remittances just once per year: 13.6% in El Salvador, 10.6% in Guatemala, and 8% in Nicaragua. More than 50% of the sample of recipient families in El Salvador, and almost 70% in Guatemala and Nicaragua receive remittances on a regular schedule—approximately one-third of the families receive remittances once a month, and another third, once a quarter (CEPAL: 1991b). When the surveys were conducted, Central American migration was still fairly new, which is always interpreted as the reason for the sense of obligation that emigrants have to their communities of origin.

Table 7.6 Central America (selected countries): Remittances and income in recipient families, 1989.

Country	Remittances* (dollars per month)	Income (in dollars)		Selected quotients (percentage)	
		Families without remittances	Families with remittances		
	1	2	3	1/2	1/3
El Salvador	100.8	141.0	241.8	71.5	41.7
Guatemala	119.9	102.1	222.0	117.5	54.0
Nicaragua	66.9	198.2	265.1	33.7	25.2

Source: Data from survey on remittances and household economy in El Salvador, Guatemala, and Nicaragua, May-June, 1990 (CEPAL 1991b).

* The distribution by strata is calculated directly on families' monthly remittance amounts.

Table 7.7 Central America (selected countries): Amount and frequency of remittances, 1989.

Percentage of families by remittance level (dollars per month)	El Salvador	Guatemala	Nicaragua
From 1 to 50	23.0	13.0	9.0
From 51 to 100	56.0	73.0	70.0
From 101 to 200	21.0	14.0	21.0
Over 200	-	-	-
Total	100.0	100.0	100.0
Season of highest remittance receipts			
Easter week	0.5	8.0	1.9
Community festival	1.4	1.5	1.2
December	29.5	27.0	52.6
None in particular	68.6	63.5	44.3
Total	100.0	100.0	100.0
frequency of receiving remittances			
Once a month	32.0	31.8	36.0
Once every three months	31.2	38.3	38.0
Once every six months	23.2	19.3	18.0
Once a year	13.6	10.6	8.0
Total	100.0	100.0	100.0

Source: Data from survey on remittances and household economy in El Salvador, Guatemala, and Nicaragua, May-June, 1990 (CEPAL: 1991b).

7.4.4 Remittances, Families, and Women

Without assuming anything definitive, the surveys suggested that remittances are part of the poor's survival strategy. In a minor way, this money alters the organization and structure of recipient households. This change, which clearly called for further research, occurs basically in the redefinition of the head of the household, which affects its internal organization. This, in turn, alters its social integration, generating new micro-social structures. In that context, women's role in family organization was given special attention. Spousal migration was leading to more women taking on the role of household head, and in the process, making decisions that affect the family. The studies summarized in Table 7.8 explicitly highlighted that finding and noted the importance of women as recipients and administrators of the remittances.

Table 7.8 Central America (selected countries): Remittance-receiving families, by gender of household head, 1989.

<u>Country</u>	Gender of the head of the household (%)	
	MALE	Female
El Salvador		
Families with remittances	30.0	30.9
Families without remittances	38.8	26.8
Guatemala		
Families with remittances	18.5	43.3
Families without remittances	31.8	42.7
Nicaragua		
Families with remittances	44.5	26.0
Families without remittances	50.0	33.3

Source: Data from survey on remittances and household economy in El Salvador, Guatemala, and Nicaragua, May-June, 1990 (CEPAL: 1991b).

7.5 The second phase of the Central American remittances project: The productive use of remittances

The second phase of the Central American studies explored the productive use of remittances in four countries. The methodological emphasis shifted to focus on remittance-sending migrant associations and their

connections to their communities of origin (without sidelining research on family strategies). Currently, the topic of collective remittances is indisputably important, and for El Salvador and Guatemala, considerable progress has been made, although a fixed variable for those countries is the small shift in the total transfers and the character of the support donations.

At the end of the 1990s, it was widely believed that various forms of self-employment and microenterprise constituted a potentially effective way to alleviate—albeit only partially—the poverty of Central American families. The region’s international migrations were now better understood, and despite the recovery of sociopolitical stability, emigration to the United States was continuing. It was apparent that remittance flows—especially for their impact on exchange and interest rates—strongly affected national economies, particularly that of El Salvador. The financial markets had also liberalized. The hardening of U.S. immigration policy and greater control at border checkpoints led migrants to strengthen their associations, principally in order to defend human rights, and within that, labor rights. This helped to create resources that could be sent home to the communities of origin and the migrants’ families (CEPAL: 1999b).

It is important to note that “productive use” was defined as “investment of remittances not only in directly productive activities, such as agriculture, services, etc., but also, generally, in any type of investment, whether social services, such as health care and education, or some sort of community infrastructure. Certainly, in theory, the projects of greatest importance would be those aiming to improve or transform the economic base of a region or community and to generate income and permanent employment. However, in the end, the specific circumstances for each region or community are those that dictate the true priorities for the projects” (CEPAL: 2000b).

7.5.1 Stages of the Project

The second phase, resulting in abundant reports (www.cepal.cl) was divided into three stages. The first involved preliminary research in El Salvador, Guatemala, Honduras, and Nicaragua on the productive use of remittances and how to encourage that. The researchers wanted to learn about the dynamics of

the Central American migrant associations, since these organizations, having developed entrepreneurial abilities, make many of the investment decisions. The inquiries suggested that in the investment arena, the concept of *collective*, rather than *family*, remittances made more sense. This observation is certainly disputable: Collective remittances were identified as funds migrant associations send to their Central American communities of origin, to support the community generally—through civic or religious festivals, social projects (health care, education) and the construction of sewer and road infrastructure. Rather than really being an investment fund, these remittances more closely resembled a type of collective donation (CEPAL: 2000b). Federico Torres's report (CEPAL: 1998) suggested the need to link Central American local development projects derived from migrant association remittances.

The second stage of the project, at the end of the 1990s, consisted of four national studies. The results were presented conferences in each country so that the findings could be discussed with key social partners working on the issues (CEPAL: 2000c, 1999c, 1999d, 1999e).

In the third stage, a regional report was written that followed along the lines of the preliminary inquiries and based on evidence from the four national studies and the ideas that came out during a regional conference (CEPAL: 2000b, 1999a). The report's conclusions and recommendations suggested initiatives that are widely known today, even though they have not all been accepted, and those that have been attempted have had variable results. Examples of the recommendations include strengthening migrant associations, but doing so without an *asistencialista* (welfare-based) attitude; fostering institutional maturity; and recognizing the importance of second-level organizations. Similarly, the relevance of projects initiated by migrants themselves was noted (and that represents a recognition of the potential for transnationalism), as was the need for studies and surveys on the topic. Also noted was the need for comprehensive policies for the migrants (a yet-to-be fulfilled assignment in most Latin American and Caribbean countries).

7.5.2 Differences among the Countries

The evidence from the 1990s was based principally on the Guatemalan and Salvadoran experiences, cases where the social networks connecting the country of origin with the emigrants' country of destination had diversified and strengthened. Additionally, in those countries, information gathering and analysis had progressed further, and the governments had encouraged greater collaboration with the destination communities in the United States. In Honduras and Nicaragua, the social and political aspects of migration and remittances were not as deeply rooted (CEPAL: 2000b). Years later, in general, these country differences still exist.

7.5.3 Migrant Associations and Local Counterparts

In the mid-1990s, Central American migrant associations in the United States experienced a strong growth spurt, and some achieved high levels of organization. Amidst the changes to U.S. immigration law, many organizations attempted to deploy affirmative strategies to defend their members' human rights, and they extended their activities to include counseling and support concerning regularization of migration status. At the same time, signs appeared of economic undertakings: "Migrants are no longer seen simply as sources of foreign exchange but rather as trained human resources that can contribute technical, organizational, and entrepreneurial skills to the development effort, and as a significant focus for the market and for business initiatives that help to connect the economy of their countries with the economy of the country where they now reside" (CEPAL: 2000b).

It was noted with great interest that migrant remittances in El Salvador were becoming closely connected to the economy and society. Not surprisingly, at the end of the 1990s, that country had bank branches in the U.S. cities with high concentrations of Salvadoran migrants. Moreover, the *Administradoras de Fondos de Pensiones* (Pension Administration Fund, AFP) encouraged migrants to contribute voluntarily as a way of saving for retirement. Finally, a government framework existed to support connections between citizens living

abroad and those in El Salvador, for example, through the *Programa de Competitividad* (Competitiveness Program) (CEPAL: 1999b). However, the situation exhibited nuances: The national study concluded that the increase in the volume of family remittances in the 1990s had offset the decline in Salvadorans' standard of living, especially for those in rural areas: "It is difficult to conceive of a way of getting remitters to send funds destined for purposes beyond just basic needs. So, we must emphasize the role that the U.S. Salvadoran community ought to play in the renewed effort to bring collective remittances to bear in the fight against poverty, through the 'productive' utilization of these resources combined with other funds for developing economic activities" (CEPAL: 1999e).

Nuances are also identifiable in the case of the migrant associations: Despite their achievements organizationally, it was apparent that they were not exempt from significant limitations. Among these were a threat to capacity building and management of the associations' governing boards; communication problems among the members (for example, because they were geographically scattered) and with their counterparts in the communities of origin; difficulties in maintaining an ongoing and regular operation (for lack of funds and dependence on volunteer labor); and impediments to organizational development and gaining legal personhood (CEPAL: 2000b).

Regarding local counterparts in the countries of origin, in general, many deficiencies of a distinct type were noted. The local organizations that might receive collective remittances were underdeveloped, and clear policies or programs to stimulate them were lacking. Specialized non-governmental organizations (NGOs) were able to play a strategic role, intermediating between the migrant associations and the local communities in each country, but there were only a few of these organizations, and they lacked experience in working with migrant associations. The studies also noted the risk that government involvement might threaten the migrant projects and sense of independence that came with them. The governments could disseminate and foster regional or local development programs among the local and migrant

organizations that might be amenable to being combined with the initiatives sponsored by those organizations (CEPAL: 2000b).⁸

7.5.4 Proposals to Encourage the Productive Use of Remittances

Several courses of action were formulated. The goal was to synthesize the great many initiatives, explore their feasibility, evaluate their possible impacts, and consider specific issues along three lines: the remitters, the recipients, and community development. Family and collective remittances overlapped.

Regarding the remitters, an attempt was made to identify actions that would increase remittance flows and facilitate migrant saving accounts in banks in the countries of origin. Proposals included the “training of specific social organizations as exchange operators; creating a grassroots courier agency to transfer remittances to Central America; negotiating with remittance transfer companies to get them to reduce their commissions in exchange for a guaranteed volume of remittances; creating Central American banking agencies in the United States to facilitate migrants’ contact with their home-country banks; utilizing transfer agencies to encourage migrants’ savings accounts in the countries of origin, whether in banks or savings and loan cooperatives; promoting more flexible dollar-denominated accounts in home-country banks for those residing abroad; creating special accounts for migrants in national currency, as well as several other proposals” (CEPAL: 2000b). Some mechanisms were acted upon quickly; others, because of their nature, received less attention from the financial system, and even today, they have had few results.

⁸ It was also noted that international organizations must support the initiatives, fundamentally to energize the flow of information and communication among the pertinent national groups and the migrant associations, and to aid in the institutional strengthening of the associations and of the NGOs that support them.

As to the proposals to encourage savings and investment among the recipients, many measures were prescribed, “such as the creation of funds for housing loans or other migrant or family investments; plans for programmed savings by remittance-recipient families; all kinds of educational programs aimed at improving the consumer habits of those families; the mobilization of specialized NGOs to encourage the productive use of remittances among the poor; the dissemination and adaptation of special loan programs for remittance recipients (for microenterprises, family enterprises, heads of household, and rural development, etc.); and the establishment of technical and financial units to help remittance recipients or the migrant returning to the country of origin to develop productive projects” (CEPAL: 2000b). Some precursors existed, such as the funds in El Salvador. However, beyond their general application, many measures had never been attempted with remittance recipients nor had they been adapted to areas experiencing high levels of emigration.

Finally, proposals for community-development or productive projects financed, partially or completely, with collective remittances were prescribed only hypothetically because no efforts to gear up such projects had been identified. Instead, most of what existed amounted to welfare-type projects or involved community development, rather than being oriented to production. Looking to the future, it is “a matter of an ongoing, systematic effort that will only have visible effects in the medium term, but that will form a central axis that could later fit into a framework of local and micro-regional participative programs” (CEPAL: 2000b).

7.5.5 Proposals: Pilot Projects

Pilot projects arose from the core idea of creating models that would be reproducible in future remittance-financed projects and, more generally, in community and productive projects. An attempt was made to continue supporting efforts to organize migrants, and to rely on the help of international organizations and specialized NGOs, along with the promotion of government programs to facilitate the flows of information and communication among

national and migrant groups. Among the most viable short-term ideas were training workshops in the communities of origin to teach skills useful locally or needed when residing in the United States. The case was made that such workshops would be inexpensive and would not require complex technologies. Additionally, the migrants in the United States might get directly involved by being the workshop trainers, and the migrants' families would be the beneficiaries.

Another initiative that emerged was the manufacture or sale of simple products, like Mexican cheeses and candies, that are in great demand in the U.S. Hispanic market—the so-called “nostalgia products.” Many other possible initiatives were identified, involving community service and institutional strengthening of the migrant associations, as well as the ongoing exchange of information between migrant groups and those in the country of origin (CEPAL: 2000b).

Arising from these ideas was one particularly noteworthy conclusion, which was clearly about establishing alliances: Governments could help with the official negotiations that these projects required; the international nonprofit organizations could offer technical assistance to document the experiments; and the region's international financial organizations, after feasibility studies, would take charge of the financing.⁹

7.6 Final Recommendations

As seen above, many recommendations reflecting the second phase of the project focus on the productive uses of Central American remittances were considered. However, it was concluded that a maturation of the banking and

⁹ Toward the end of the project, offers came from the *Banco Centroamericano de Integración Económica* (Central American Bank for Economic Integration, BCIE) to finance productive projects guaranteed with remittances. The bank also offered to collaborate in advising and guiding the formulation of those projects. The Inter-American Development Bank also expressed interest in this same area, as did the United Nations Development Program—through its offices in El Salvador and Nicaragua (CEPAL 1999b).

financial systems must continue to be encouraged; the use of proven instruments for capturing savings and risk capital, such as purchasing housing in installments, must be made more widely available, and new instruments must be created; and a gradual, decentralized, and participative strategy must be adopted aimed at increasing the flow of collective remittances and directing them to projects having an impact on the communities of origin. Finally, it was mentioned that remittances should be treated as a *quality financial resource* for the development of new strategies, models, and projects for productive transformation in the region.

7.7 Beyond the ECLAC Proposals: Progress and Challenges in the Remittance Field

The ECLAC Central American studies helped identify different concerns at various levels because they included the responsibilities of, among other actors, local and central governments, the migrants and their many modalities of association, remittance-receiving families, international and civil-society organizations, as well as financial entities and the intermediaries that handle remittance flows. The concerns the studies posed nowadays are not so novel. However, some of the problems continue and are difficult to resolve, not only in the sub region but in other Latin American and Caribbean countries as well.

Today, we know that an examination of remittances requires distinguishing between the various levels of analyses and interventions. We recognize the contradictions implicit in how the money is transferred and utilized; the multitude of interpretations, experiences, and consequences of the effects of migrant remittances; the unevenness in degrees of organization among migrant associations; and the specificity of government actions that respond to the migratory process itself. Also apparent is the gap between the perceptions held by many governments and what critical analysts are reporting, as well as the gap between the views of the multilateral organizations and those held by most researchers.

In general, there has been progress in Latin America and the Caribbean, but the many issues surrounding remittances continue to pose a challenge. It is well known that remittances have significant effects on the balance of payments, savings, and possibly on investment and growth. Remittances represent more than 60% of foreign direct investment in contrast to other sources, leading to the conclusion that there is some stability in the flows (Solimano: 2003a). Either way, beyond macroeconomic consequences, remittances affect a reality that is filled with nuances and contradictions.

a) Financial aspects and the transfer market: Although relatively uncompetitive, the remittance-transfer market has seen costs drop. (However, that situation could be reversed, and in some countries, cost remains above 10% of the total transaction amount). This has come about with the involvement of new and great numbers of, intermediary agents, which helps in attaining greater transparency. However, in many countries, a need still exists to encourage the involvement of banks, confront market inefficiencies, utilize innovative transaction tools, and reduce costs even further. It is a matter of finding common ground between public and private interests. This should begin by recognizing that the way remittances are measured must be improved (using the balance of payments, household and specific surveys, and information from money-transfer firms), and the relationship between remittances and the synchronized economic cycles in the remitting and receiving countries needs to be evaluated.

b) Family arrangements and forms of use: It is widely acknowledged that Latin American and Caribbean families use remittances as if they were part of a household's income. The funds are spent on basic consumption, health, education, to improve the family's residence, and savings. Depending on the socioeconomic characteristics of each household (and particularly, its location) income may be invested in business, real estate, or a micro enterprise. Those efforts run up against a lack of support from the public sector. Remittance successful experiences are not widely shared, and the best-known initiatives and their replicability still need to be thoroughly evaluated. (Mexico's Three-for-

One, My Community, and the Farming and Ranching Development programs, programs in El Salvador and the Dominican Republic, and the IDB and MIF programs are cases that could be more critically assessed). It is extremely important to encourage savings capacity among women and their organizations (as counterparts and as remitters), which merits adopting a gender focus. Additionally, the intergenerational effects (in particular, on the well-being of older adults in remote communities) must also be strongly encouraged. *Best practices must still be developed for the region.*

c) Remitters and money-transfer methods: Related to the previous topic, the individual effort of migrants is visible when analyzing how remittances are transferred. Migrants reciprocate for the use of their social networks in their communities, around which the associations have formed, by investing in basic infrastructure and in health-care and educational facilities in those communities.¹⁰ The potential for local development that is inherent in the migrants' contributions is visible in those investments. This hints at the importance of emigrants as investors and as potential importers of local products originating from their communities in Mexico. However, sustained alliances need to be forged between local governments and economic actors, including the migrants, their associations, and civil society, in order to create, among other things, funds for collateral loans. At the same time, we cannot overlook that many remitters are in situations of grave social vulnerability, which is exacerbated when the remitter is undocumented. This situation poses a tremendous impediment to associations' organizational efforts and to attempts to strengthen the role of intermediaries in nostalgia-market exports. It also makes active policies for strengthening emigrants' connections with home country and recognizing their citizenship pointless.

¹⁰ This is a topic inserted in the formation of transnational spaces. Thomas Faist (2000) shows that they are expressed in kinship networks and in transnational circuits and communities, characterized by a variable density of connections that range from reciprocity among small groups to widespread solidarity in the communities.

d) Social consequences: The most recent estimates (CEPAL: 2005) indicate that nearly one-third of all Latin American households receive remittances. However, those beneficiaries present variable levels of poverty, and the effects on total household income and consumption also vary. It seems that remittances continue to be most important to poorer families, particularly for the women who receive and administer the money. However, much more research using national household surveys is needed in order to evaluate the effects of family disintegration, as well as the effects on poverty to evaluate impacts on income distribution at the national, regional, and local level.

e) Proposals for the future: Clearly, initiatives can already be seen in other fields. What remains obvious is that remittances unite a broad spectrum of issues. With good reason, international agencies are increasingly addressing those topics. For example, interagency cooperation is being explored to enhance the measurements of the flows (the creation of the International Working Group to Improve Remittance Statistics) because it is believed that remittances must be consciously included in national development agendas. A long road remains ahead: In some Latin American countries, the incorporation of remittances into social programs and poverty-reduction strategies is not happening smoothly, and a comprehensive vision of remittances as a part of contemporary migration and globalization, and the risks and opportunities that come with it, has barely been adopted.

7.8 Conclusions

Remittances are an important aspect of the interrelationship between international migration and development. This chapter has reviewed the experiments that were an initial response to increased Central American emigration, which arose when those countries were recovering their civil peace and exhibiting signs of relative sociopolitical and economic stability, which would later experience many vicissitudes. Fifteen years have elapsed since these studies began. The discussion around the first set of results continues when examining the micro-social effects of remittances, particularly in terms of

the ability to overcome poverty. Nevertheless, the information on the size of remittance flows, the development of a recipient-household profile, and an understanding of the modalities for remittance uses in family budgets—all products of the ECLAC Central American studies—are indisputably important. This is revealed by the studies' results, which in no way disassociated poverty from the limitations on development in these countries. Moreover, these studies offered evidence that research on other countries in the region has never replicated. This evidence more widely illustrates project proposals and best practices that are yet to be implemented.

Moreover, these studies emphasized the unwanted effects of remittances. Without proposing concrete measures—something that will require a rigorous evaluation of each country's and each community's prevailing situation—the studies emphasized the need to address family dynamics. It also raised other potential problems: the passivity of the local governments in facing the utilization of remittances for social investments; accentuation of intra-community inequalities, reflected in greater and more visible vulnerability in families without members who have migrated; and the dependency on an external source of funds, which is susceptible to fluctuations and reversals (CEPAL: 1999b).

Since the first results were disseminated, institutional thinking has matured, which the Commission's publications on migration and development reflect (CEPAL: 2002a). Remittances can no longer be separated from migration itself. At the end of the 1990s, the region's governments were warned that the transitory relief that remittances offer the state of under-consumption could be fostered intentionally with the institutional support for the various actors involved. However, in no case should governments view remittances as an alternative to policies that must be implemented to achieve sustained development and social equity. In the long term, development and the well-being of the Central American people has always needed a set of factors that would inspire human capital and economic growth, confront the need to reduce strong social inequality, and favor sociopolitical stability. In the short term,

taking advantage of positive synergies generated by remittances—both to foster savings and investment as well as to focus resources on clearly defined target groups—can contribute to easing some difficulties that Central American nations face as a consequence of their under-development, which is the source of the current emigration abroad.

Meanwhile, new research on other Latin American countries, especially in South America, can benefit from this experience. Nevertheless, it will be necessary to keep in mind the specificities of each country's unique national situation.

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CHAPTER 8: REMITTANCES IN LATIN AMERICA AND FUTURE REMITTANCE RESEARCH

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8.1 Introduction

According to the International Organization for Migration (IOM), there are more international migrants worldwide today than at any other time in human history. The IOM currently estimates that more than 192 million international migrants are scattered around the world representing about 3 percent of the world's population.¹ The flow of migrants around the world is growing at 2.9 percent per annum and these flows are expected to continue its ascending pattern as countries become more interconnected.²

It is also known that most of these flows are from developing countries to developed ones although there is also significant international migration among developing countries. This is an important feature because one of the most beneficial effects of international migration is the flow of money, in the form of remittance payments from migrant workers to their families back home. These financial flows associated with international migration have also reached record levels. A recent article by BBC News Online estimated that total world remittances exceed \$232 billion with \$165 billion going to developing countries as of November 2005³. This is double the amount registered only five years ago. In 2004, remittances were larger than public and private inflows in 36 less-developed countries; and they accounted for more than 10 percent of gross domestic product in 20 countries. These flows of money were roughly the same size as foreign direct investment, exceeded private debt and portfolio investment and were twice as large as overseas development assistance (ODA).

¹ <http://www.iom.int/jahia/page3.html>

² Ibid

³ BBC Online News, March 2004.

The ever-increasing flow of remittances into the economies of developing countries has led multilateral organizations to suggest that these flows can have a large impact on their development prospects. Banks and financial institutions have begun competing to find more efficient ways to help migrants send their earnings back home. Migrants themselves have also started to channel some of these flows to sending regions in hopes of sparking economic development through family and collective remittances. This chapter will analyze some migration and remittance trends in Latin America and discuss the current debate about remittances and development. The new geography of migration and remittances and its implication for the potential impact of remittances on development will also be discussed.

8.2. Trends in remittance flows to Latin America

According to a recent report by the Inter-American Development Bank, Latin America will receive US\$ 60 billion in remittances from the United States, Europe and Japan, surpassing both the amount of official development assistance and foreign direct investment to the region. Migrants working in the United States alone will send around \$45 billion to their communities of origin in 2006. This represents about a 50 percent increase from two years ago.⁴ Recent projections estimate that remittances will continue to grow in coming years and surpass US\$100 billion a year by 2010.⁵

In absolute terms, Mexico receives the largest flows in Latin America totaling around \$US20 billion in 2005, an amount equivalent to 3 percent of Mexico's GDP⁶. In relative terms, small Central American and Caribbean countries like El Salvador and Nicaragua reach remittance flows equivalent to 60 to 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

⁴ Porter (2006)

⁵ <http://www.iadb.org/news/articledetail.cfm?artid=3692&language=English>

⁶ Canas et.al. (2006)

Republic and Guatemala, there would be six countries from Latin America and the Caribbean in the list of the top 20 countries in remittance flows as a percentage of GDP.

While the scale of recorded remittances is clearly large, it almost certainly underestimates the true size of remittance flows by a large margin. The World Bank has estimated that the actual size of remittances may be 50% larger than the officially recorded flows⁷. The discrepancy is due to serious problems in both the quality and coverage of remittance data. Remittance flows through informal channels (like unregulated transfer services and family and friends) are rarely captured. The reporting of “small” transfers – even those made through formal channels – is not mandatory in many countries, and remittance transfers are often misclassified as export revenue, tourism receipts, non-resident deposits, and even as FDI. More fundamentally, the World Bank argues that there isn’t even a consensus as to the boundary of the phenomenon under study. Should only workers’ remittances be counted, that is, strictly only those private transfers from workers residing abroad for over a year? Should we also include transfers from employees residing abroad for shorter periods (whose entire income should technically be classified as compensation of employees) or even migrant transfers (the net worth of migrants that is transferred when they return home)?

Mexico is considered to have one of the more advanced statistical agencies in Latin America; yet, empirical estimates of the volume of remittances to Mexico vary considerably. The only time-series data for remittances in Mexico is put together by the Mexican Central Bank. Prior to 1989, the Central Bank had a very incomplete accounting of household remittances since they only accounted for what they called “family remittances” through the postal and telegraph services surveys done by the Transportation and Communications Ministry. After 1989, the Central Bank devised a more

⁷ World Bank (2006)

comprehensive methodology for recording remittances⁸. This methodology included two new surveys. One was the Family Remittances survey, which was applied to the two major banks and exchange houses. The other, called the Family Remittance Census, was extended to eighteen other commercial banks and almost all exchange houses. The Central Bank defines family remittances as “any unilateral transfer from a Mexican resident abroad to a Mexican resident in Mexico, assuming that they are both related and the money goes to the maintenance of the receiver”.⁹

The true size of remittance flows suffers from omissions and serious discrepancies with other sources of information. There are some significant omissions. The Central Bank’s definition omits two possibly significant flows of money from migrants. One omission is the so-called “commuter” migrants who are migrant workers that live in Mexican towns along the US-Mexico border and commute daily to the US for work. The monies received by these migrants are considered “factorial payments” and therefore they are registered under the Labor Income category in the Mexican Balance of Payments. A second omission is transfers in the form of goods and services known as in-kind transfers, which may or may not be accounted for in the trade and commerce statistics. These flows may be significant as reported recently by a major newspaper¹⁰. According to the Foreign Ministry, in December of 1997, one million migrants came back to Mexico for the holidays. More than half brought on average US\$500 in cash and merchandise according to information gathered from robbery reports filed with the government.¹¹ The Central Bank methodology has no systematic way to account for remittances that migrants bring upon their returned visits to Mexico. Lozano has estimated pocket transfers could be as much as 30 percent of the total flow¹².

On the other hand, there is evidence from other data sources that suggests the Central Bank figures might be overestimated. Due to the increasing flows

⁸ For a review of the methodology see *Banco de Mexico* (1991).

⁹ Ibid

¹⁰ Lavender (1998)

¹¹ Ibid

¹² Lozano (1993), pp. 59

during the 1990s, Mexican researchers turned their attention to the quantification of these flows using data from different national surveys to conclude that the actual flow of remittances to Mexico may be in the order of 50 to 60 percent of what official Bank flows report. One of the most important of these studies is the *Encuesta de Migracion a la Frontera Norte* (EMIF)¹³ which estimates remittances at around US\$ 2,055 million for the period between March 1993 and February 1994 while for the period March 1996 and March 1997, the flow is estimated at about US\$ 1,500 million¹⁴. In contrast the Mexican Central Bank indicates a flow between US\$ 3,000 and 4,000 million for 1993-94 and about US\$ 4,500 for the 1996-97 periods.

More recently, Corona (2002) using another data source, the National Survey of Demographic Dynamics (ENADID), estimates the amount at US\$ 2,660 million for 1997, which is only about 55 percent of the Central Bank estimate. Although this estimate does not include in-kind remittances or cash brought by the migrants themselves (which now the Central Bank partially does include) this category only amounts to just over 1 percent of the total flow. More importantly, Corona's figures include monies brought home by "commuter migrants", which the Bank did not. From the ENADID survey, Corona (2002) identified 111,092 migrants who reside in Mexico's border towns but work in the United States due to the proximity of Mexico to the United States. These workers cross the border on a daily basis but they are not officially considered migrants. These workers, commonly known as "daily commuters," brought 901 million US dollars in 1997. This gives rise to a total flow for 1997 of 2,660 million US dollars. Another government agency the National Population Council (CONAPO) using a different survey instrument, the National Income and Expenditure Survey of Mexican Households (ENIGH-96)¹⁵ puts the flow of remittances at 2,090 million for 1996. This latter figure is also only half of the flow reported by the Central Bank for that year. Although all surveys have their

¹³ For the EMIF methodology see Santibanez and Corona (1994).

¹⁴ Nacional Population Council (1998)

¹⁵ See CONAPO (1999)

particular shortcomings, there seems to be significant discrepancies to warrant further investigation. The quantitative nature of this bias is yet to be explored in future research.

These difficulties with the data limit the precision of in-depth empirical work on remittances, but certain basic facts about the nature of the phenomenon remain clear. Remittances are not only very large in scale; they are also much more evenly distributed among developing countries than capital flows, including FDI, which tend to be concentrated in a few big emerging markets. A recent 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”¹⁶. 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. Yet recent media outlet reports speculate that the rate of growth of remittances is finally slowing down, starting in the last quarter of last year, due to better reporting, the sluggish U.S. economy and in particular the bust in the real estate market. Whether this is a long-term trend is still debatable.¹⁷

8.3. Remittances and Development

The economic effects of remittances are not only closely linked to their size which we have already discussed above but also to how they are used by remittance-receiving households. It is 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

¹⁶ Ratha (2005)

¹⁷ Inter-American Dialogue’s Latin Advisor, May 16, 2007

(land, tools, equipment, machinery, start-up businesses, etc.)¹⁸. 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 suggests that real GDP might increase by an additional 1.3 percent in the Mexican case. The sectoral distribution of these impacts was mainly in the service, food processing, and agricultural sectors. 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.¹⁹ 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.²⁰

There are also indirect or non-economic effects of remittances. For example, in Mexico 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 than in households with other income source and that ratio was 2.6 in rural areas. In most Central American countries, remittances increase the average per capita income by 7 to 14 percent (IOM), while employment also increased from consumption

¹⁸ Stalker (1994)

¹⁹ Adams (2005)

²⁰ For similar results in Mexico, see Zarate-Hoyos (2000)

multipliers²¹. From a cost-benefit point of view, all these benefits must be balanced against the social disruption of families torn apart by migration. A full cost-benefit analysis of migration and remittances is yet to be explored.

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.”²² 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.”²³ This leads us to conclude that a reduction in poverty through remittances can have an indirect 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 ratio of remittances to 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)²⁴. 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.²⁵

Latin America is usually portrayed as the most unequal region in the world in terms of income. As reported in *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 era of liberalization in

²¹ See OIM (2005)

²² Department for International Development (2005)

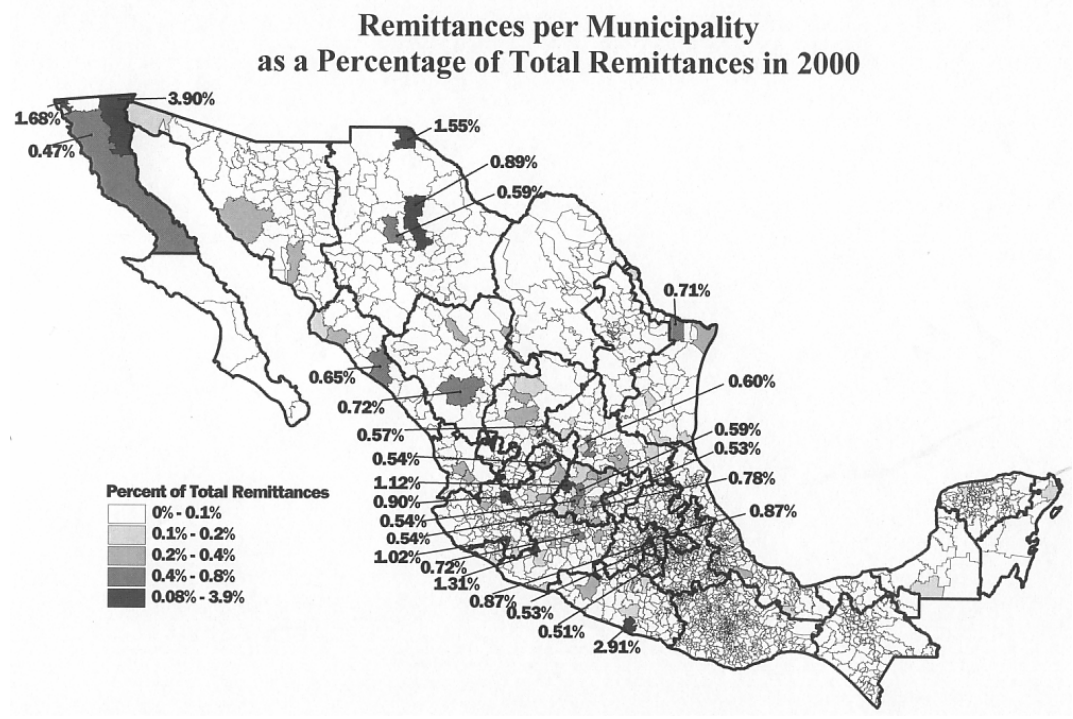
²³ *Ibid*, pg. 8

²⁴ World Bank (2006)

²⁵ Adams (2004)

the 1990s.”²⁶ 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 spending²⁷. 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.

Map 1



Studies have been ambiguous about the impact of remittances on income inequality 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

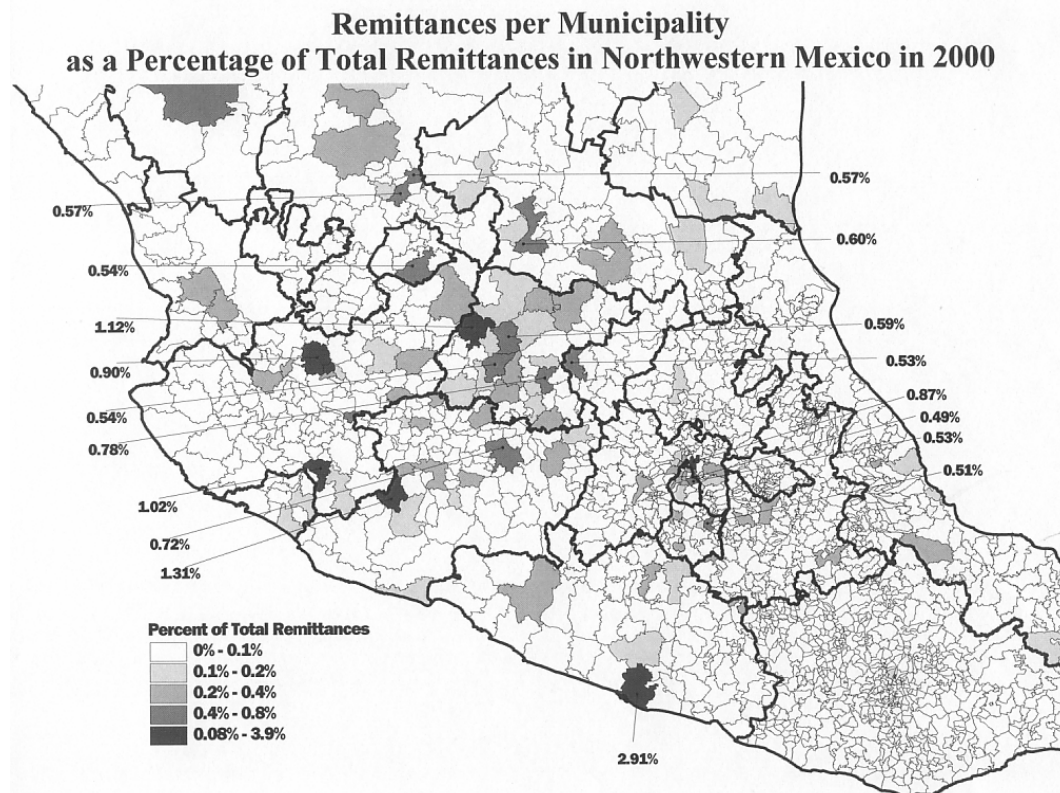
²⁶ “Inequality in Latin America, A Stubborn Case”, The Economist, November 6, 2003

²⁷ World Bank (2004)

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)

This pattern is more clearly seen at the regional level. The traditional migratory region in Mexico is the northwestern part of Mexico (see map 2). A quick glance at the distribution of remittances in this region shows that remittances are concentrated in very specific municipalities in Mexico.

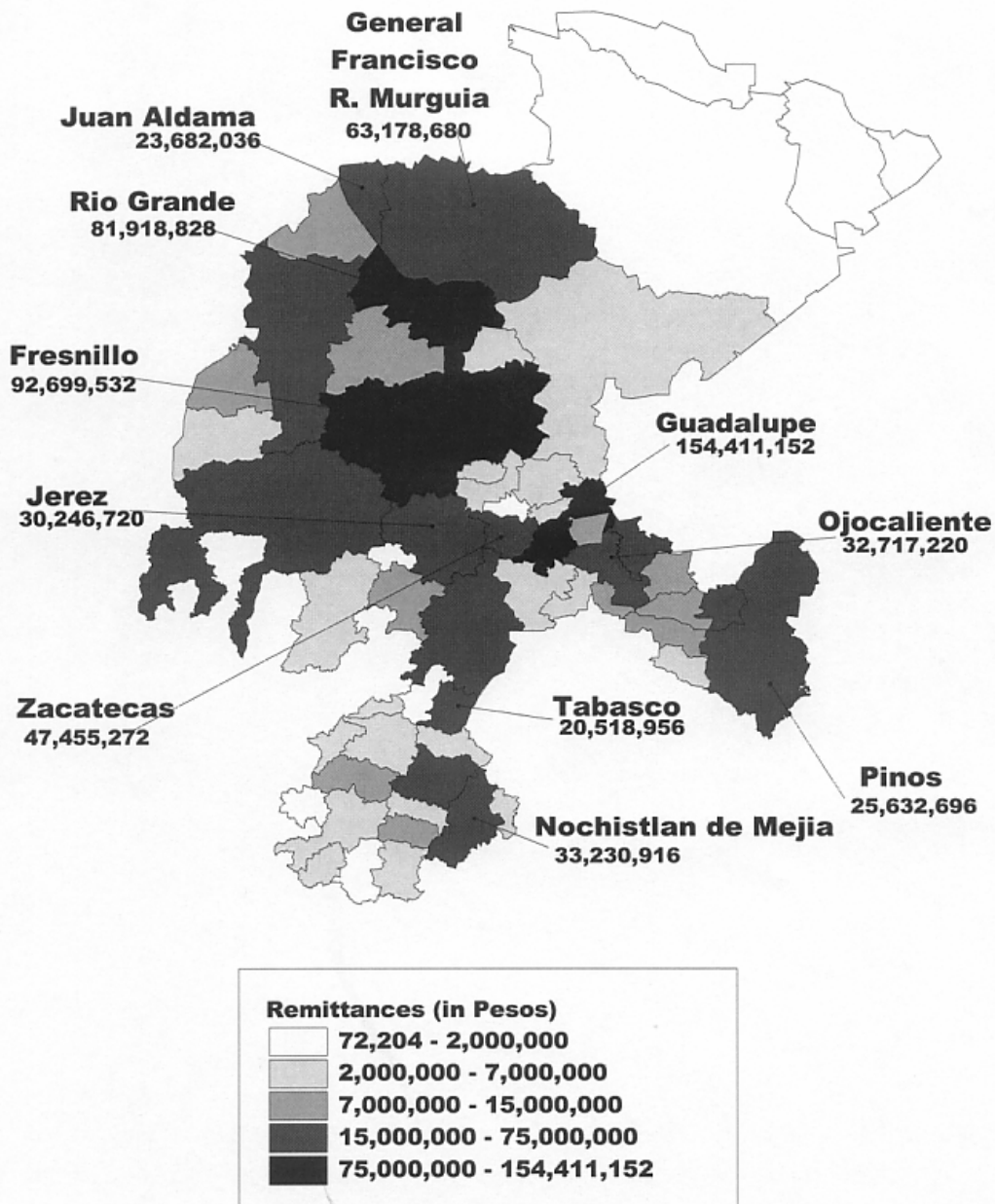
Map 2



We obtain similar results at the state level by looking at Zacatecas which is the state with the longest migratory tradition in Mexico (see map 3)

Map 3

Family Remittances in Zacatecas State



Our review of the findings seems to indicate that given that the most common use of remittance is to finance current consumption with a small percentage going to financing education and establishing small commercial businesses, there is also a lot of interest in measuring the welfare impact of remittances. But this is difficult in part because of the poor data quality, and in part because of the difficulties associated with accounting for the counterfactual loss of income that would have been earned had the worker not migrated. However, the overwhelming preponderance of evidence from model simulations, cross-country regressions, and household surveys all suggest that remittances do have a significant impact on the severity of poverty. Remittances also appear to help in consumption smoothing, which is especially important for poor households that may lack access to insurance and credit markets. For such households, income diversification associated with migration may be an important risk reducing strategy. Remittances have also proved particularly important in sustaining incomes in a number of post-conflict and fragile states.

Nonetheless, some critics point out that remittances are studied out of their context and there is a tendency to exaggerate their potential and obscure their more deleterious effects.²⁸

8.4. The new geography of migration and remittances

Historically, migration from Mexico to the United States from 1880 to 1920 was mainly directed to Texas and California where almost three-quarters of all Mexicans settled.²⁹ The Bracero period (1942-64) brought about an era of guest workers as well as undocumented migration, but the main destination areas in the U.S. remained California and Texas through the end of the program in 1964. From 1970 to 1980, California continued to grow in importance as a destination point in the United States and by 1980, 57 percent of Mexican immigrants were in California. The Immigration Reform and Control Act (IRCA) brought the first major geographical changes to Mexican migration.

²⁸ Elton (2006), pg. 1

²⁹ The historical overview is found in Durand, Massey and Capoferro (2005).

By the time the reform was fully implemented, 2.3 million Mexicans acquired legal documents and they were now able to move freely in search of better jobs and better destinations.³⁰ New employer sanctions, deteriorating economic conditions in California and growing hostility towards immigrants expressed in Proposition 187 pushed Mexican immigrants to exercise their newly acquired geographical mobility.

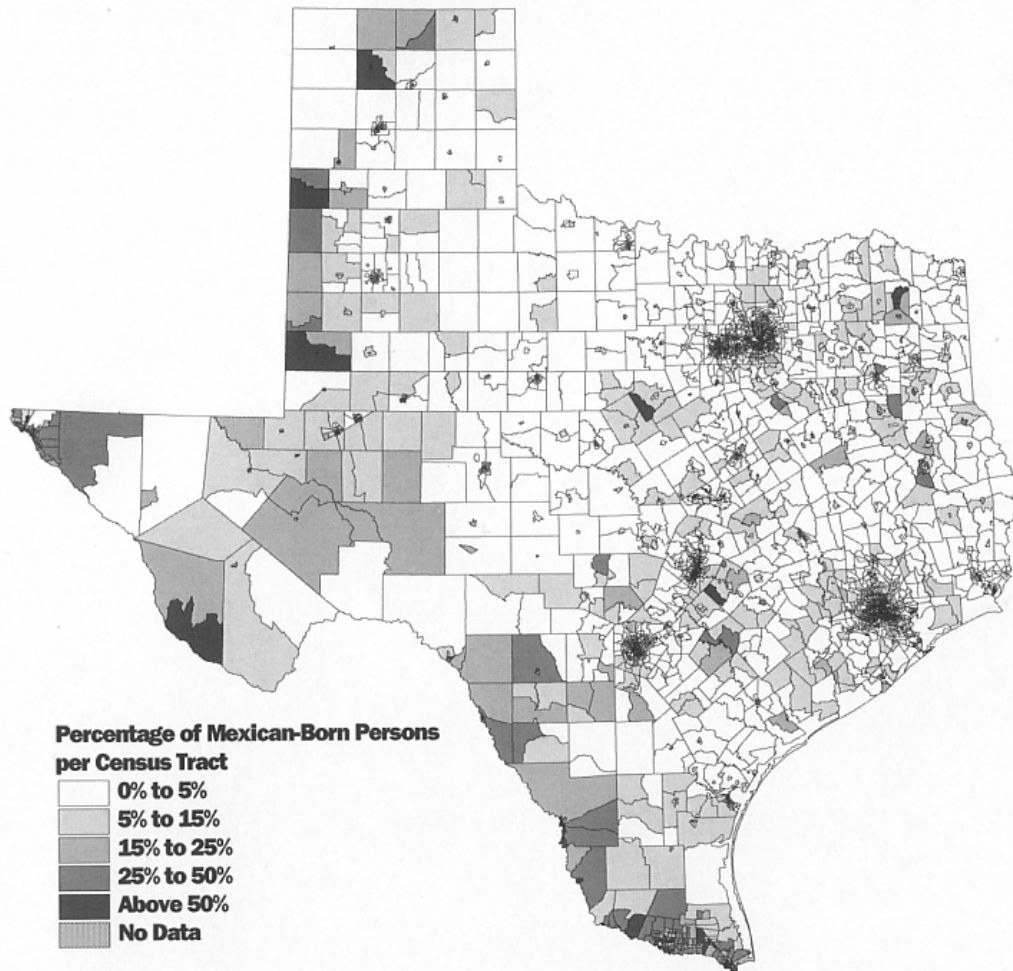
The changed geography is clearly observed between 1990 and 2000 as the percentage of all Mexican immigrants that lived in California dropped from 58 percent to 48 percent, while the percentage living in Texas reached an all-time low of 19 percent in 2000.³¹ The uneven distribution of residents claiming Mexico as their place of birth places undue pressure on the fiscal finances of some counties and states while the benefits accrue to the larger national economy (see map 4). Significant migrants still come to California, Texas, Florida and New York as some of their major destinations but as Zuniga and Hernandez-Leon explain “the Post-IRCA period has been one of notable change in the forces that promote and sustain Mexico-US migration.” Many interesting patterns have emerged as a consequence to the many changes of the last few years like the militarization of the border, the construction of a wall resembling the Berlin Wall, the rise in native hostility exemplify by the presence of *vigilante* groups along the Mexico-U.S. border. Some of these factors have changed the flow of migrants through more dangerous paths along the border or more important for policy makers; to what extent have these factors change the flow of migration from a temporary flow to a more permanent one. This may very well be the case of what economists call “the law of unintended consequences”. These profound changes in migration flows and their impact on remittance flows deserve further investigation.

³⁰ Ibid

³¹ Ibid

Map 4

**Percentage of Texas Residents Claiming Mexico as their Place of Birth
2000 Census**

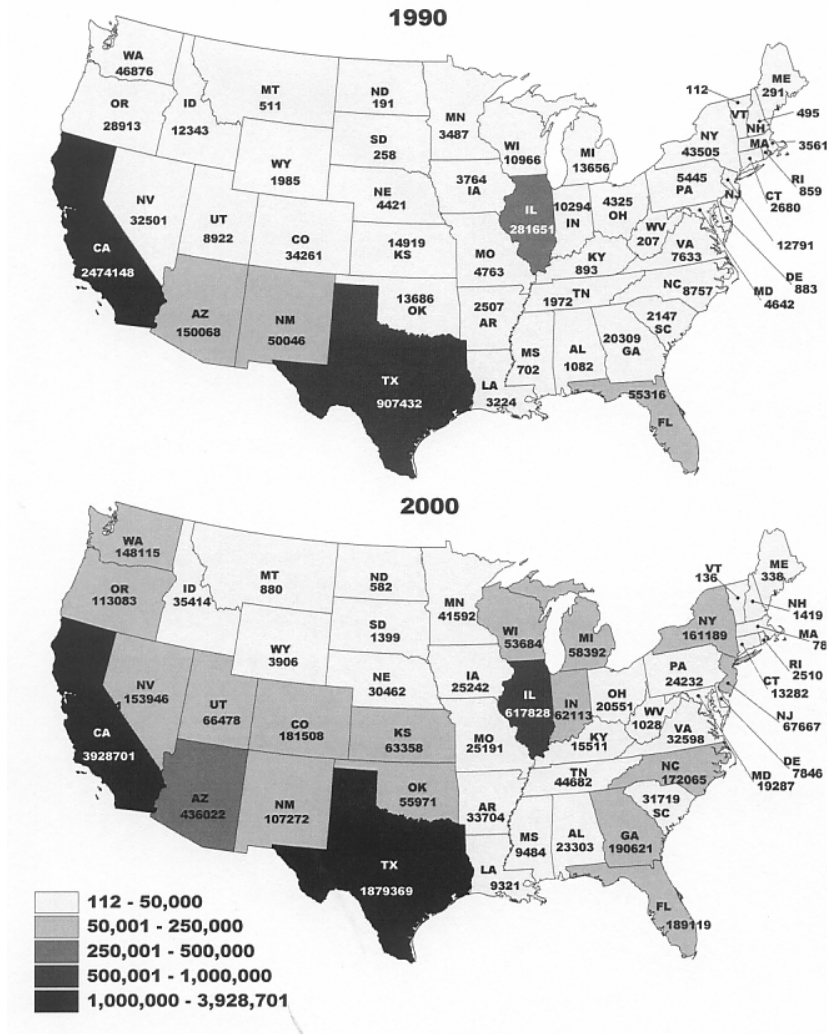


Mexican migration has continued unabated during the past two decades, reaching a point where almost 9 percent of all Mexicans (approximately 10 million persons) are now living in the United States. Between 1990 and 2000, the foreign-born population from Mexico in the United States more than doubled and their spatial distribution in the United States is rapidly changing

away from California and Texas and into new states in the southwest, south, mid-west and northeast (see map 5).

Map 5

**Persons Claiming Mexico as Place of Birth
U.S. Census for 1990 and 2000**

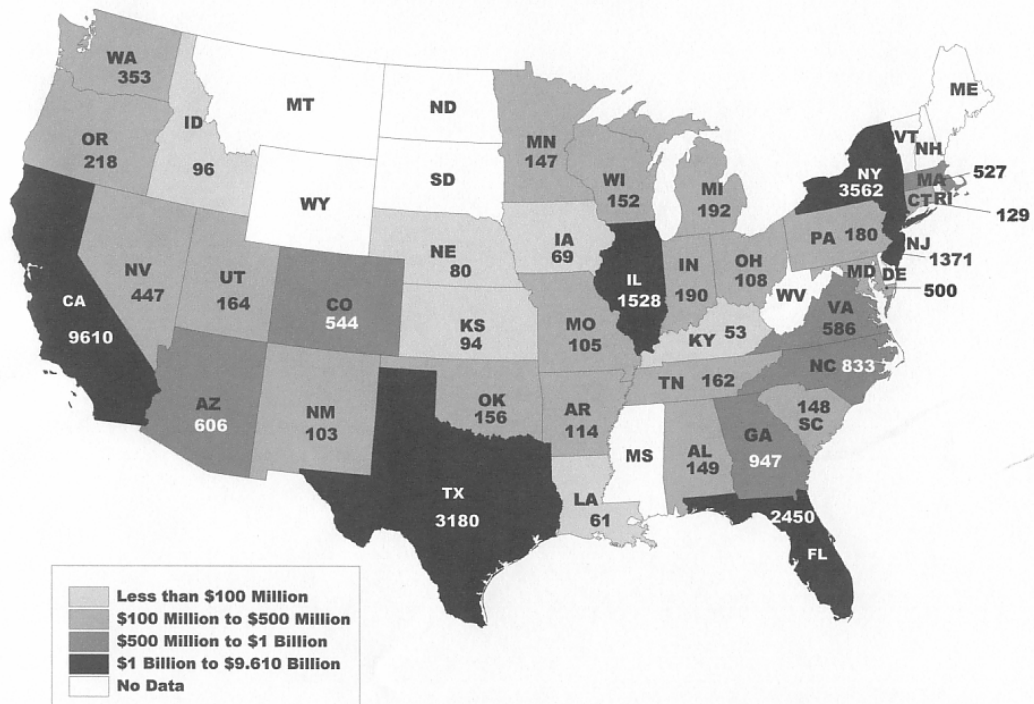


Although the large percentage changes are due to the initial low levels of migration in these states, they do show a marked dispersion across the United States with the largest increases in the Southern states. Between 1990 and 2000, 19 states experienced an increase in their foreign-born population of

between 100 and 274 percent while another 13 states experienced growth rates of between 50 and 100 percent.³² According to the Migration Information Source (2006); the “2000 U.S. Census shows that both Georgia and North Carolina were among the 10 states with the largest absolute growth in the foreign-born population from Mexico.” The Mexican immigrant population in Georgia grew by 170,000, from 20,000 in 1990 to 191,000 in 2000. For North Carolina, the foreign-born population grew by 163,000, from 9,000 in 1990 to 172,000 in 2000. Both North Carolina (1,865 percent) and Georgia (839 percent) were also among the 10 states with the largest percent increase in their Mexican immigrant populations.”³³

Map 6

**Remittances to Latin America from the United States
(In Millions - 2004)**



³² Migration Information Source (2006). http://www.migrationinformation.org/issue_mar04.cfm

³³ Grieco (2006)

Mexican immigration is now a nationwide movement spread out across the United States. The same could be said of other Latin American migrants. Along with this new geographical dispersion there is also increased political participation as migrants create their political social organizations known as hometown associations (HTAs). Migrants remain connected with their communities of origin through remittances; therefore millions of dollars are now sent back to Latin America from states that only a few years ago did not originate any remittance flows (see map 6).

The new geography of migration is also observed in the diversification of sending regions in the country of origin, although data is only available for Mexico. Mexican migration to the United States has had a specific geographic distribution. Traditionally most migrants have come from four states—Guanajuato, Jalisco, Michoacán, and Zacatecas—and these states have also consistently received the most remittance payments.³⁴ However, recent data from the Mexican National Census shows significant changes in this geography as new states and regions emerge as sending regions. In the last few years, traditional migrant-sending states in northwestern Mexico—Durango, Jalisco, and Zacatecas—have lost their place to states such as Nuevo León and particularly the Distrito Federal. These states now represent a larger proportion of total migration flows. Today, the states of México, San Luis Potosí, Veracruz, and in particular the Distrito Federal—that received less than 1 percent of total remittances as recently as 1995—now receive between 4 and 6 percent of these payments.

There is a need to understand more thoroughly the process driving the emigration from these so-called emerging states in Mexico as well as the increased demand in certain industries in the South and the Midwest driving these forces in the United States. One state that exemplifies the recent trends

³⁴ Unger and Verduzco (2000)

is Veracruz where emigration from very specific areas in the state has reached extremely high volumes in a relatively short period of time. Migrants from Veracruz come from specific areas in the state and they also have identifiable patterns of destination in the United States. The dynamics of these corridors warrants further investigation.

According to the Binational Study on Migration in 1997, Veracruz was ranked 15th in terms of the number of migrants. In the last 10 years NAFTA and the collapse of coffee prices have brought about changes that have accelerated the rate of migration. By 2000, the Mexican Population Census showed that Veracruz had 4.8 percent of the total migrants leaving for the United States, occupying the 6th place behind Jalisco, Michoacan, Guanajuato, the state of Mexico and Mexico City. Perez (2006) estimates that about one million people (or 12.5 percent of the population) has left the state in the last decade alone. These new migrants, who traditionally headed to California, Texas and Illinois, are now heading to new destinations such as Georgia, North Carolina, South Carolina, New York, Michigan, Minnesota, Oregon, Utah, Colorado, and Kansas. These migrants use old networks and at the same time create new networks that need to be better understood. For example, migrants from Colipa and Yecuatla are heading to Michigan, Arkansas and California while migrants from Actopan are heading to Georgia, Illinois, South Carolina, Oklahoma, Tennessee and California.³⁵ Yet, remittances seem to flow mostly to Actopan but not to Colipa or Yecuatla in significant numbers.

Migrants from Veracruz have sent US\$ 950 million in 2004 and US\$ 1,154 million in 2005³⁶. According to the Mexican Central Bank, in 1995 Veracruz ranked 15th among Mexican states in terms of remittances received but it had moved to 7th in 2003 and 2004.³⁷ (see map 7). Other emerging states with similar patterns include Hidalgo, which moved from 16th to 10th place, and Chiapas, which moved from 27th to 11th.

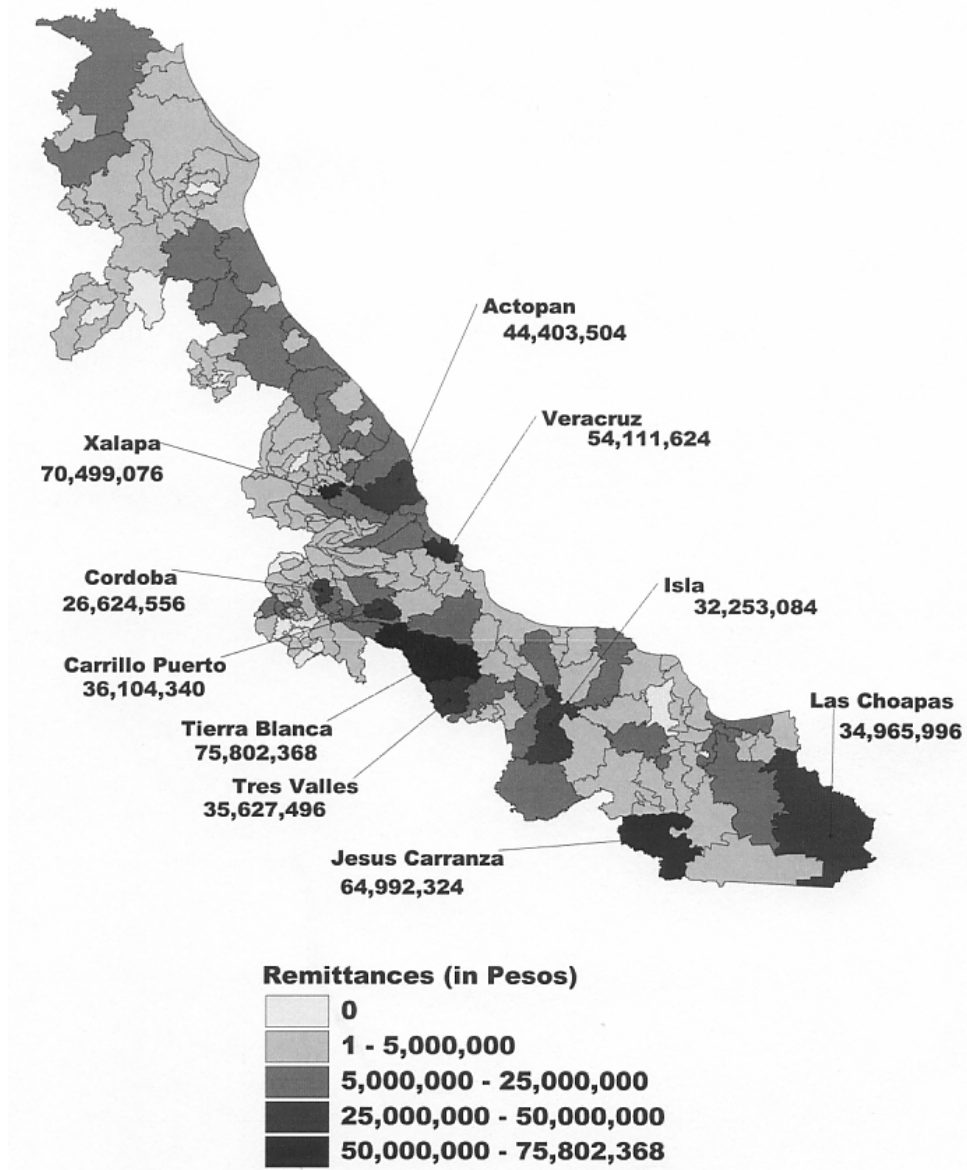
³⁵ Perez (2006)

³⁶ Mexican Central Bank Annual report, 2005

³⁷ Ibid

Map 7

Total Remittances in Veracruz State (2000)



For states with a significant number of migrant workers, remittances are extremely important. Many states receive significantly more funds from remittances than from federal spending. In the new emerging states like Hidalgo, Puebla, Oaxaca, and Veracruz, remittances represent 100 percent

more than *all* federal outlays in these states. Although more than 90 percent of all Mexican municipalities received some remittance payments in 2000, just 20 percent (or 463 out of 2,443 municipalities) received almost half the total. Therefore, understanding the emerging migration patterns will allow state governments and the federal government to tackle the potential for uneven development since the spatial distribution of remittance-receiving households may accentuate existing regional inequalities.

Financial institutions also have a stake in understanding the rapid changes in the geographical distribution of the new emerging migration. Despite growing competition, the cost of money transfers remains high in many places. According to the World Bank, money transfer fees amounted to \$12 billion worldwide in 2002. During the 1990s, almost 15 percent of Mexican remittances went to financial intermediaries and money transfer businesses rather than low-income households. While competition has brought the charges down to approximately 5 percent, fees could still be lower than current rates considering the ease by which financial flows move across countries in a more globalized world. Reliable empirical information for optimizing business geographical locations is one essential input to bringing down money transfer costs.

8.5 A Special Type of Remittance Payment: Collective Remittances

While there is continued debate about the development impact of family remittances, another type of remittance is destined directly to development projects; namely, the money sent by migrants through their hometown associations (HTAs). Elsewhere in this volume, there is a discussion of the origins, structure and mechanisms by which collective remittances are channeled to migrant-sending communities. For all levels of government, understanding the geographic distribution of remittance flows, particularly collective remittances, is very important. Collective remittances do not necessarily have the same spatial distribution as family remittances; consequently, they must be analyzed separately.

For many years, Mexican migrants in the United States have organized clubs and associations that carry out activities for the advancement of their members in the United States. The efforts of these clubs or hometown associations (HTAs) have intensified across the United States and they now even support activities such as defending members in labor and civil matters and sponsoring social and religious functions. More recently, these groups have begun providing development assistance to their home communities. HTAs support community projects such as street work, water provision, parks, bridges, ambulance services, libraries, sports facilities, and the restoration and building of churches. These activities have drawn the attention of researchers and multilateral organizations as well as Mexican government authorities. The Mexican government has used its consulates in the United States as a vehicle to recognize HTAs as legal entities and work with them to channel funds to poor Mexican communities.

In Mexico, HTAs leaders have pressured federal, state and local governments to increase their financing of projects with a direct development impact. Thus, initially, the federal government matched these funds in a program called two-for-one. Later, state and municipal governments joined in these efforts in a program known as three-for-one and more recently the private sector has also pledged support to expand this program to a four-for-one; that is, every dollar entering a municipality as collective remittances is matched by four additional dollars from the federal, state, municipal and private sector. This greatly enhances the potential development impact of collective remittances.

Although HTAs have experienced significant growth in the last few years, 70 percent of all associations remain affiliated with just four states-Guerrero, Guanajuato, Jalisco, and Zacatecas. Consequently, migrant and government funds for social investment tend to be concentrated in these areas. Multilateral organizations are also interested in channeling HTA funds for the creation of small businesses, but the total amount of collective remittances has

not been systematically documented.³⁸ Although these payments are currently estimated at between 1 and 2 percent of total family remittances, their potential development impact is much larger given the growth of HTAs and the growing Latino population in the United States. Given the current destination of 5 to 6 percent of family remittances to economic productive activities, and collective remittances plus four times that amount in matching funds, remittances earmarked for development projects may constitute a critical mass of funds dedicated to local and regional development.

8.6 The Spatial Distribution of Family and Collective Remittances

The general geographic distribution of remittance flows is as expected.³⁹ States that traditionally send more migrants to the United States receive the greatest volume of remittances. These traditional states are Jalisco; Michoacán; Guanajuato; Baja California; Guerrero; and to a slightly lesser extent, Zacatecas, one of the oldest migrant sending states. Surprisingly, despite the fact that all Border States have "commuter workers" who work on the United States side but live on the Mexican side, only one border state has high remittances. This may be due to how remittances are accounted for, or it may be due to the more dynamic economy along the Tijuana–San Diego border, which has higher wages than the rest of the country.

Over the past decade, the geography of remittance payments has shifted dramatically at the state level. This pattern has emerged so recently that a consensus has not been reached as to its cause. One argument suggests that people are migrating from new areas because of the crisis in Mexican agriculture and the failure of the state to develop sensible policies for medium-

³⁸ Data on family remittances was available at the state and municipality levels from the Mexican 2000 Population Census. Data on social remittances came from fieldwork done by Anayatzin Larios Candelas, a graduate student in the applied economics program at El Colegio de la Frontera Norte, Tijuana, Mexico, as part of her master's degree dissertation. Using ArcView 3.2a, Anderson prepared a series of maps using this data.

³⁹ This study applied simple GIS techniques such as straightforward choropleth mapping. Nevertheless, these maps were powerful tools in identifying areas that need further investigation. The greatest challenge remains in acquiring remittance data at a level finer than municipalities.

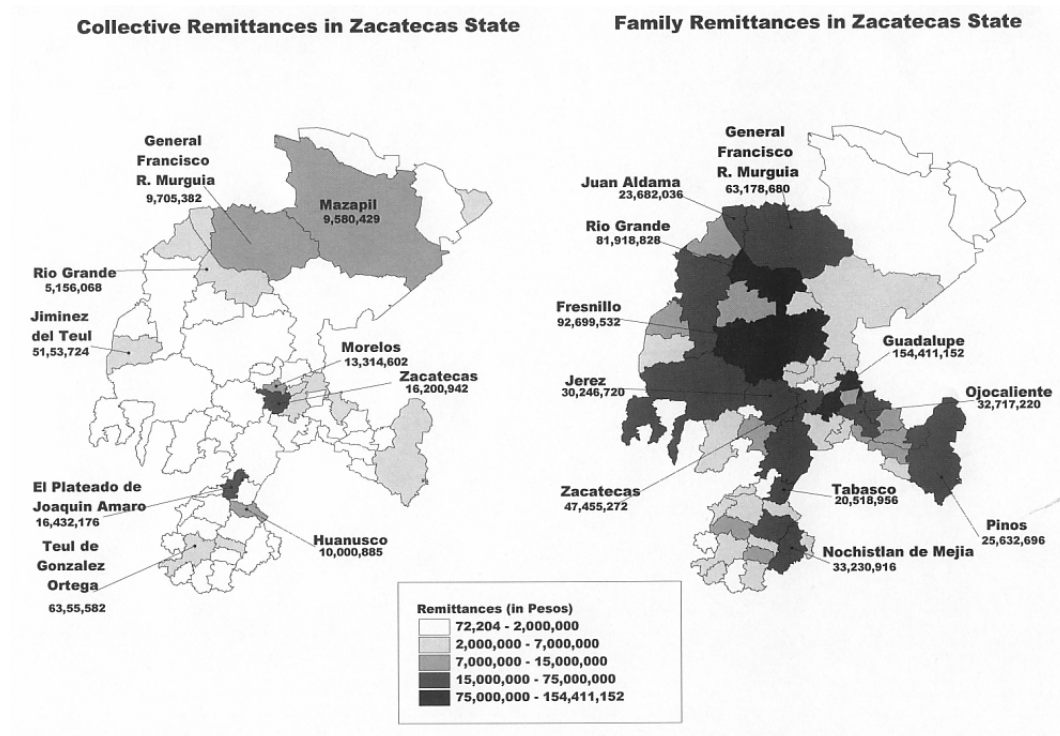
and small-scale farmers. In Oaxaca, Veracruz, and Yucatan, for example, farm laborers previously worked for short periods on coffee, sugar, or sisal plantations; on farms in other Mexican regions; or in the United States. Younger laborers may now see no future in local agriculture so they are migrating to export processing zones (Maquiladoras) in Mexico to become factory workers or leaving permanently for the United States as the latter option also diminishes. Today, Oaxacans are easily found as agricultural workers in California as well as industrial workers in New York state.

Another argument suggests that the North American Free Trade Agreement (NAFTA), rather than deterring migration to the United States, has increased it and changed its geography. For example, producers of corn, a Mexican staple, cannot compete with the heavily subsidized American farmers. American grain imports are creating a large pool of unemployed farm workers who may become migrants. Although there are other reasons for migration, it should be recognized that the failure of Mexico to produce enough jobs has been especially evident in the poorest regions of the country, especially the southeast, which is now sending increasing numbers of migrants to the United States.

Mapping remittances at the municipality level revealed a very unequal distribution of remittances. For example, one municipality in the state of Michoacán, Acapulco de Juarez, has the highest volume of remittances in the country. Other municipalities exhibiting similar patterns are León in Guanajuato, Buenavista in Michoacán, Zapopan and Tuxpan in Jalisco, and Juarez and Chihuahua in the state of Chihuahua. However, it may be both noteworthy and counterintuitive that municipalities such as Acapulco, with its heavy dependence on tourism which generate a high demand for labor, and León; with its dynamic regional economy, still send migrants to the United States and receive substantial remittances. This indicates that local economic strategies may create jobs, but these jobs continue to be low-paying ones that do not keep people from migrating north.

As yet, no published studies have examined the distribution of collective remittances. We took a closer look at one state, Zacatecas, to compare the distribution of collective and family remittances and found that the municipalities of Jalpa, Fresnillo, Sain Alto, General Panfilo Natera, and Villanueva, in descending order, received the highest level of family remittances. On the other hand, Guadalupe, Villanueva, Nochistlan de Mejia, Jerez, and General Panfilo Natera, in descending order, received the most collective remittances. Only General Panfilo Natera received high levels of both types of remittances. This suggests that perhaps collective remittances reflect the degree of organization and activism among the different HTAs, while family remittances are determined by family needs with little overlap between the two as shown in Map 8.

Map 8



This preliminary analysis indicates that state governments need to invest in collecting data for both types of flows. A more in-depth analysis of the geography of collective remittances earmarked for local economic development

is needed rather than solely relying on the available family remittances data when determining where to distribute state and municipality scarce resources.

8.7 Maximizing Remittance Benefits

More resources need to be devoted to gathering data on collective remittances, quantifying the precise amounts of remittances flowing to Mexico, and a greater focus is needed on analyzing the possible state and local consumption multiplier effects. In particular, the forces driving migration from emerging states, such as Oaxaca and Veracruz that have only recently begun sending substantial numbers of migrants, should be more closely examined. These tasks are in the realm of the Mexican federal and state governments.

The federal government has been mapping 90 micro-regions that are at the bottom of the income distribution. These micro-regions are characterized by extensive poverty and few social services. For some municipalities, remittances make up between 50 to 60 percent of total household income. Although, these funds are mostly spent on education and health, 5 to 6 percent of family remittances and collective remittances are being invested in development. Much more needs to be done to integrate data on migration with data on poverty to determine how remittances might alleviate poverty so government resources can boost these private efforts.

Once the spatial distribution of migrants and remittance flows has been analyzed, policy makers should focus on channeling remittances to the most vulnerable groups, because migration continues to be an important part of an antipoverty policy. This effort should include seeking partnerships with nongovernmental organizations that can target communities with large migration and remittance flows along with high levels of poverty and exclusion.

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