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# DEVELOPMENT THROUGH MIGRATION AND REMITTANCES: THE IMPACT ON INEQUALITY

By

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## ABSTRACT

Over the last few years, remittances have become one of the key phenomena in global finance, profoundly affecting developing countries. This study takes an in-depth look and analyzes how the existing research sees the flows of remittances and their consequences on development. The impact on inequality, taking into consideration the effects that remittances have on economic, social, global and gender inequities, is the main concern in this thesis. However, due to the fact that other factors are related to the topic, the outcomes of remittances on economic growth and poverty are also discussed. On analyzing the existing research, my findings show that *migration selectivity* has an important role in the impacts of the remittances on inequality. However, it is shown that other aspects, such as *the stage of migration* and *the level of development* of migrant sending country also influence the remittance-inequality relations. Furthermore, it is found that remittances play a role in increasing gender equality by, for instance, helping women gain new roles. After looking at the more global perspective, it is discovered that global inequality can be reduced using remittances as a substitute for skilled emigrants in cases such as 'educated unemployment' in home countries. The paper then concludes with some policy options. It suggests that governments and international organizations should put more effort in counting money sent through informal channels and encourage migrants to use formal ones.

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# INTRODUCTION

Over the last few years, remittances have become one of the key phenomena in global finance, profoundly affecting developing countries. Due to the size the flows have acquired recently, the relations among development, remittances and migration have led to a controversial discussion among researchers and policy makers. A lot of recent studies present positive positions on remittances and development (see Orozco 2002; de Haas and Plug 2006; World Bank 2011). The leading view is the flows have a positive effect on poverty reduction and economic development. Lately in the social scientists' and economists' (e.g. Ratha, 2004; Jongwanich, 2007) emerging pro-remittance debates, remittances have been considered a good source for development due to several reasons – they are predictable, may reach the target better than other sources, and are counter-cyclical (Ratha, 2004). Also, they are claimed to be a more stable source of foreign capital in comparison to foreign direct investment (FDI) or official development assistance (ODA) and are more equally distributed in developing countries compared to other capital flows (Hernandez-Coss et al, 2008; Jongwanich, 2007). Remittances are rapidly increasing and total up to a large amount of money in comparison to other sources of external finance, such as Foreign Direct Investment (FDI). For example, they reached $328 billion in 2008, a 15 percent increase from $285 billion in 2007 (Ratha et al., 2009)

However, some critiques warn against being over-confident and look skeptically at the possibilities of remittances solving global developmental problems; sarcastically they name this phenomenon 'the new development mantra' (Kapur 2004; de Haas, 2005: 1276; Akesson, 2009: 383). It is visible that even in the most optimistic studies on the impacts of remittances there is space for concern, which is also related to the effects of remittances on inequality. For example, various writings on migration criticize the developmental impact led by remittances, generally focusing on its non-sustainable nature (e.g. Durand and Douglas, 1992; Papademetriou and Philip, 1991). Also, Stahl (1982: 883) emphasizes that "migration, particularly international migration, can be an expensive venture. […] [I]t is going to be the better-off households, which will be more capable of producing international migration" and so sending back remittances. While poor households would not benefit from such remittance flows, "they tend to create inequality so that poverty has a tendency to eventually increase" (Jongwanich, 2007: 7). Scholars' different conclusions give us an opportunity to further examine the reasons why the opinions between economists and critical social scientists on the relation between remittances and development are so diverse.

Before directly addressing the question of the impacts of *remittances* on *development*, a definition and description must be assigned to the terms. According to Carrasco and Ro, international *remittances* are "transfers of funds by foreign [migrant] workers – remitters – who are living and working in developed countries typically to their families who are still living in their home countries" (2007: 1). Examples are migrants from the Middle East who live in Europe; Latin Americans who work in the United States; or Filipinos sending money from Japan back to the Philippines. Even though the use of remittance varies from one country to another, the recipients normally rely on them for living costs, education, and investments. Remittances are transferred using a range of channels, which differ in, for instance, speed, convenience and cost (Carling, 2005: ix). Looking from a policy perspective, governments and international institutions seek to discourage the use of informal channels, also to minimize transfer costs and encourage transfers that enter financial institutions in the receiving countries (Carling, 2005: ix). Furthermore, the meaning of the term *development* is the subject of an extensive debate in the literature. Here development will be taken not simply as economic growth; using Thomas' (2005: 318) model, it will be coupled with material improvement in fields such as poverty reduction and increased equity.

My research will address the question of how the existing literature sees the impacts of the flows of remittances on inequality. A general critical review is missing from the literature and there are controversial findings and conclusions in need of clarification. While furthering development through economic activities, new jobs and entrepreneurship is a key issue, so is the impact of the remitted money on poverty and inequality. Even though decreasing inequality itself can be an element of further development, it may impact economic growth through the expansion of markets and jobs at the lower levels of the economic and social structure (Latapi, 2011: 3). Taking into consideration the consequences that remittances have on economic, social and gender inequities, inequality will be the main concern in this thesis. However, due to the fact that all factors are related, I will also discuss economic growth and poverty. My analysis will contribute to the existing literature with the new way of looking at remittances and development, especially putting the different and diverse types of existing inequality (such as income and gender) together. Despite basic arguments being presented, other factors which influence the effects of remittances, such as the scope and scale of migration will be investigated. Besides, the emphasis will be put on the kinds of insights critical social scientists provide to the understanding of the relationship between remittances and inequality that mainstream economists tend not to pay attention to.

The research will be qualitative and exclusively rely on the use of secondary literature, which will be critically reviewed and examined. Together with published books and articles, the documents used for the thesis will include World Bank, International Monetary Fund and United Nations reports and working papers. Moreover, the study will use discussion papers and the global seminar material presented at various conferences on remittances and development (e.g. UN Conference on Trade and Development, 2005). Also, quantitative data will be used to demonstrate the relevant situation.

In the introductory part (*Chapter 1*), after presenting the extent and scope of remittances, the most common motivations to remit and the difference between formal and informal channels will be considered. In *Chapter 2* I will discuss some of the criteria to evaluate developmental outcomes – economic growth and poverty alleviation – and will talk about the outcomes of remittances on them. In the main part (*Chapter 3*), I will concentrate on inequality and conceptualize how the existing research presents the different aspects in relation to remittances and inequality reduction. To do so I will unfold different types of the term, such as income, status, gender and spatial/global inequities.

## CHAPTER 1: INTRODUCING SCOPE AND PRACTICES OF REMITTING

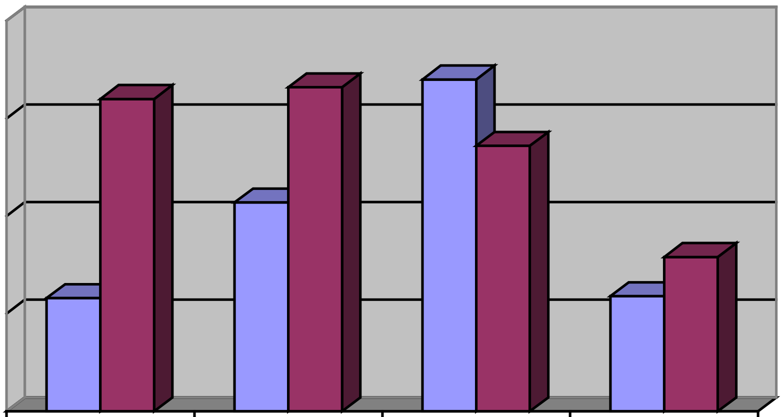
Contemporary data show that remittance flows to developing states reached $328 billion in 2008, 15 percent increase from $285 billion in 2007 (Ratha et al., 2009), becoming the second largest source of external financing after FDI (e.g. Ratha, 2003). Also, as revealed by the World Bank (2006) workers' remittances have grown much faster than private capital flows (see Figure 1). According to the absolute value of the flows (as Figure 2 shows), major receiving states are characteristically large countries such as India ($55 billion), China ($51 billion) and Mexico ($22.6 billion); however, (Figure 3) remittances as a contribution to gross domestic product (GDP) make a large part in small countries, for instance, Tajikistan (35%), Tonga (28%) and Lesotho (25%) (World Bank, 2011: 13-14).

In 2007, recorded remittances were the third largest source of external finance to developing countries as a whole (reaching up to $251 billion), following the portfolio equity[1] ($543 billion) and FDI ($460 billion) (Grabel, 2008: 7). Also in 2007 remittances were twice larger than FDI or ODA inflows ($104 billion). Without a doubt, in many developing countries, the money flows sent by migrants have become the largest source of external finance and an increasingly important source of purchasing power and foreign exchange (Grabel, 2008: 7). From 1996-2006, the flows to developing countries have grown much faster than other international private capital flows and ODA (Grabel, 2008: 7), which shows the importance of the phenomenon and asks for a further investigation of its impacts on the development.



[1] "Portfolio equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors" (World Bank, 2011a).

Figure 1: Change in Capital Flows (US$ billions) (Source: World Bank, 2006: 88)



| | Workers' Remittances | FDI | Private Debt and Portfolio | ODA |
|---|---|---|---|---|
| 1995 | 58 | 107 | 170 | 59 |
| 2004 | 160 | 166 | 136 | 79 |

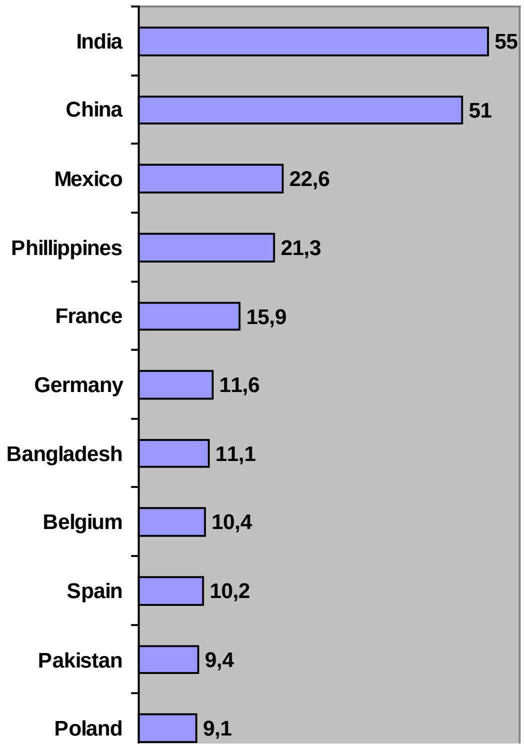



Figure 2: Top Remittance-Receiving Countries (US$ billions), 2010 (adopted from World Bank, 2011: 13)

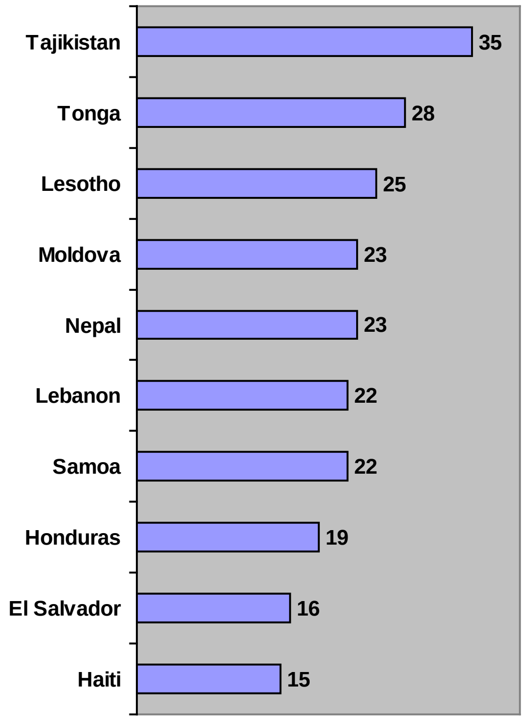



Figure 3: Top Remittance-Receiving Countries (% of GDP), 2010 (adopted from World Bank, 2011: 14)

Migrants' motivations to remit have been debated for some time. One of the most commonly mentioned motive for remitting is *altruism*: migrants care about the home household's well-being and remit to improve the living conditions of their relatives and friends (Ruiz and Silva, 2009: 6). Here, we can spot the signs of spatial inequality between those who receive remittances and others who do not: families without external funds would be disadvantaged. Especially if remittances are forwarded towards richer population, there would be an increase in inequalities between rich and poor. However, altruism itself cannot explain the determinants (see Ruiz and Silva, 2009; Ratha, 2004).

Another explanation for remitting behavior is *self-interest*. One of commonly mentioned motives is *investment* in the home country. According to Ruiz and Silva, "perhaps the emigrant does not have good investment opportunities available in the host country and therefore decides to invest in the home country" (2009: 6). It may also be the case that the migrant simply plans to repatriate and retire in the home country and as a result concentrates on investing there. Furthermore, it has been discussed that some migrants remit because they have a hope to profit from the household's gratitude after returning home (Ruiz and Silva, 2009: 7).

Some studies argue that remittances are used for *insurance* purposes. These motivations suggest that "by leaving the household and moving to another region or country, the migrant will be subjected to risks that are mostly uncorrelated to those that the household faces; hence, the migrant and the household are able to diversify their risks" (Ruiz and Silva, 2009). The circular relation would be created as the migrant workers may buy insurance against bad economic times in the host country by sending money and the household supports the migrant during tough economic times (Ruiz and Silva, 2009: 7).

Furthermore, migrants also may be concerned about their prestige or social status. In some cases, their and their families' economic situation can be shown by remitting large amounts and so increasing their social status (Naiditch and Vranceanu, 2011: 3). In relation to this, Diome (2003) describes the situation of very poor Senegalese migrants living in France. Despite their poorness, they send remittances and when going back to their home villages, spend a lot of money there. This way the migrants hide their real migrant living condition.

After reviewing the literature on migrants' motivations to remit, I would argue that all motives are valuable in furthering the development. Altruism may have an impact on the reduction of poverty and inequality (if remittances are forwarded towards the poorest). Whereas self-interest can directly effect economic growth as, according to Ruiz and Silva (2009: 6), "through self-interest migrants' remittances are more likely to be used for investment".

As it has been noted, migrant workers send money to their home countries due to various reasons. They do so by using both formal and informal channels. The former include major money transfer operators (MTOs), such as Western Union and Money Gram, or international and local banks. However, due to factors such as language barriers and the costs related to these services, the majority of migrants use informal channels: for instance, they might take money home themselves or send it through a friend or the mail (Carrasco and Ro, 2007: 4).

| Formal | Informal |
|---|---|
| 10-20 % cost | 0-1.5 % cost |
| Service to main cities | Reaches isolated areas |
| Detailed records kept | Minimum or no records kept |
| Receipt to sender | No receipt to sender |
| Collection at agency premises | Home pick up |
| Transfer in days/weeks | Transfer in hours |

**Table 1: Differences between formal and informal methods of transfer (adopted from: Passas, 2004; Sharma, 2009)**

Passas (2004) in his research calls the informal service providers the 'informal value transfer systems', which occurred before the formal banking system and have existed for centuries. For instance, the *Hundi* and *Hawala*[2] system common in South Asia, *Fei Ch'ien* (flying money) and *Guanxi* in China, *Phone Kuan* in Thailand, 'door to door' in Philippines etc. The latter transfers are characterized by personal connections and are functioning because of "language advantages, low operating costs, wide outreach and trust" (Sharma, 2009: 6). Passas (2004) also provides an assessment of the formal and informal remittance service provision methods and discovers the informal service providers' advantage on numerous factors (as you can see in Table 1). The lower sending costs, no formal regulations, fewer bureaucratic formalities are some of the benefits. On the other hand, informal providers do not issue receipts nor maintain records of transactions, which may create risks. However, Passas (2004) reports no instance of fraud. They also have a more extensive coverage in contrast to banks, where users find it convenient due to 'door to door' service. Furthermore, unskilled



[2] Using this system migrants remit money by handing it over to a dealer who contacts his colleagues in the destination country and asks to pay the domestic currency equal of the remitted amount to the migrant's family. Due to its reliance on communal relationships, the *hawala* system is said to be more secure than banks or government services, which are seen with distrust in many emigration regions. Moreover, the *hawala* provides quick (within 24 hour) and anonymous money transfers for remitters (Brown, 2006: 68)

migrants are often scared of the formalities of banks and find informal services easier to use (Sharma, 2009: 6).

In order to facilitate development, despite the advantages of informal channels for users, it is essential for policy makers to increase the amount of remittances sent through formal channels. The money sent back home through official agencies and banks can facilitate financial sector development in developing countries in numerous ways (SSRC, 2009). Firstly, due to the increase in bank deposits from remittances, banks are able to provide more loans; also, remittance receivers using banks can get access to other financial services; and banks that provide remittance transfer services are able to extend their services to ‘unbanked recipients’. In addition, in the countries where the financial system is underdeveloped, remittances sent through official channels can advance development through alleviating credit constraints and promoting growth. I agree that the use of formal channels would benefit development more. The money kept in the government accounts could be used for promoting economic growth, to support social care system etc., whereas interest paid to the people for keeping their money in special accounts would directly reduce poverty. However, there are other factors, such as levels of corruption, which may interrupt the bright sides of formal channels of remitting, especially in the underdeveloped or developing countries.

As mentioned earlier, migrants remit using a wide variety of mechanisms ranging from formal banks, agencies such as Western Union to more informal *hawala* or *hundi* (South Asian example) systems, also simply carrying cash back during their visits home. The more formal ways of remitting are not normally used by poorer migrant workers, because they usually send smaller amounts of money and face poor exchange and high commission rates (Black et al., 2006: 20).

Governments by encouraging the usage of formal channels can create more opportunities for economic growth, which would prevent undocumented money flows and reduce the amounts being used mainly for consumption. Macro-economic stabilization in remittance receiving countries may also be crucial in enabling investment rather than personal consumption (Black et al. 2006: 20). Even if personal consumption itself involves investment in social terms and plays a role in reducing inequality, "substantial and sustainable investment in economic and social activities at a community level is clearly a higher goal for most governments interested in reducing inequality." Migrants cannot be expected to make a contribution themselves, whereas the creation of economic conditions in which they would see economic growth as in their own interests may be a way forward (Black et al., 2006: 20).

# CHAPTER 2: DEVELOPMENT THROUGH REMITTANCES – ECONOMIC GROWTH AND POVERTY ALLEVIATION

Remittances are a significant and stable source of income in a lot of households of developing countries. It is also important to evaluate their importance to the countries' economic growth as a whole because people use received money for both investment and consumption needs. Remittances assist in providing basic necessitates for the poor and so reduce monetary restrictions and therefore help households overcome difficulties in the periods of crisis (Vargas-Lundius and Lanly, 2008: 35). Furthermore, due to the impacts of remittances transfers, many families break the circle of poverty. In this chapter, the link between migration and development will be approached through examining the existing research and how it sees the impacts of remittances on economic growth and poverty reduction. Economic growth will be looked through both micro-scale and macro-scale. Then I will turn to the impacts on poverty reduction. It is important to distinguish different types of the term. Grabel (2006) introduces, what I think is a significant differentiation: *transient* as well as *structural* poverties.

## *2.1 Remittances and Economic Growth*

Workers' remittances can positively influence growth through various channels. The 'optimist' camp stresses the potential outcomes. On the micro scale, remittances might cut credit constraint of household receipts, which would possibly lead to the increase of industrial activity and private investment (Yang, 2004). Households in developing countries face less efficient credit than in developed states; therefore, the entry to credit markets is one of their biggest concerns (Jongwanich, 2007: 5). Mesnard (2004) analyzes the positive relationship between migrants' remittances and household investment in the developing countries. He uses a life-cycle model and studies the impacts of remittances on Tunisia and finds that people who have limited access to the financial market have a tendency to use remittances to invest. Brown (1994) argues that remittances play an important role in savings and investment in the island economies, such as in Tonga's and Samoa's.

The impacts on education and health are important and should neither be dismissed. According to various scholars (e.g. Jongwanich 2007: 5) they are the main variables in promoting long-term economic growth. Remittances play a role in reducing child labor, leading to improved child schooling and boosting education expenditure (Yang, 2004). Maimbo and Ratha (2005: 5) also confirm the key effects of remittances on education and health and states that they 'may help improve economic growth, especially if used for financing children's education or health expenses'. Through the increased standards of health care system and education, it is possible to promote the efficiency of the society and therefore increase economic growth in the long-run.

Looking at the macro-scale, a country's creditworthiness could be improved by the usage of remitted funds which would provide better access to international capital markets. World Bank Report (2006) emphasizes that "the calculation of country credit ratings by major international organizations also depends on its magnitude of remittance flows". The credit rating rank could be significantly improved with the help of the increased flows of remittances, in that way enhancing economic growth (Jongwanich, 2007: 6).

Furthermore, remittances allow a country to pay for imports and pay back debt. To illustrate it, Maimbo and Ratha (2005: 5) use Lebanon as an example. The country was at risk of a balance-of-payments crisis due to its foreign debt, what was almost five times the size of its exports. However, such a crisis did not occur, what can be attributed to the large inflows of remittances. The amount of money sent by Lebanese migrants is similar to its exports (about US$2.4 billion in 2002). The proportion of Lebanon's debt to exports is halved when remittances are taken into account. Whereas Brazil and some other countries have been using remittances as a guarantee to borrow from the international markets at lower interest rates (Maimbo and Ratha, 2005: 5).

In addition, remittances receiving countries could feel positive effects to economic growth generated through multiplier-effect mechanisms. Jongwanich (2007: 6) highlights that "while there are backward and forward linkages in investment activities, an increase in investment of one household could generate an increase in income to other household". Similarly, the expansion of one sector in the economy could be followed by the optimal size increase in other sectors due to remitted money indirect effects.

On the other hand, the *positive* and more importantly - *significant* - impact of remittances on economic growth is questionable. Some scholars (e.g. Stark and Levhari, 1982) argue that consumption and "the financing of future migration" are the priority spheres where remittances are used. They do not only increase the economic growth, but might even have a backward effect. Even if remittances increase investment, riskier income-generating investment activities are facilitated by the phenomenon (Stark and Levhari, 1982). Eventually, due to the poor investment in productive activities, the role of remittances in facilitating economic growth is further diminished (Jongwanich, 2007: 6).

Even though some scholars argue that a large amount of remittances can result in currency appreciation, which can further influence the competitiveness of exports (Maimbo and Ratha, 2005: 5), the opposers assert that large flows of remitted money could make the production of tradable goods less competitive in the international markets (the condition also known as the 'Dutch Disease'[3] dilemma). Amuedo-Dorants and Pozo (2004) use the sample of 13 Latin American and Caribbean countries to examine the influence of workers' remittances on the real exchange rate. The study shows that workers' remittances are likely to

[3] The term 'Dutch disease' was first used to describe the difficulties faced by manufacturing in the Netherlands followed by the development of natural gas on a large scale which triggered a major appreciation of the real exchange rate. Since then it has been used to look at any situation in which 'a natural resource boom, or large foreign aid, or capital inflows, cause real appreciation that jeopardizes the prospects of the tradable sector' (Acosta et al., 2007).

reduce international competitiveness of the countries and so cause some economic costs on the export sectors in the remittances receiving states.

Additionally, labor supply can be indirectly affected by remittances. The flows may encourage some remittance-recipient households to stop working or work less, in the end reducing economic growth. According to Jongwanich (2007), "remittance transfers take place under conditions of asymmetric information in which the remitter and recipient of the transfer are separated by long distances […], leading to significant moral hazard problems where the latter is likely to be reluctant in participating in labour market, limiting their job search, and reducing labor effort". Other authors (e.g. Chami et al, 2003) also stress that remittances can reduce recipients' motivation to work, which would be followed by slowed growth. Finally, there is another issue presented that many developing countries face – the 'brain drain'. Their highly educated citizens leave and use their human capital elsewhere while the money they earn and remit home has little impact on the home country's economic growth, regardless of the increased consumption (Carrasco and Ro, 2007: 8). Even if remittances have negative consequences on economic growth due to 'brain drain', the phenomenon will be further examined in relationship to global inequality reduction later in the thesis.

Apart from reduced market competitiveness or 'brain drain', the usage of received remittances for consumption instead of investment is another common argument used to disagree with the positive impacts of these flows (see Amuedo-Dorants and Pozo, 2004; Chami et al., 2003). However, I would still assert that remitted money have positive rather than negative effects, even if it is used for consumption. To show that, a division between the presumably negative impact of consumption into the consumption of local goods and imported goods is needed. The spending on local goods may result into more positive outcome, but even expenditure on imported items may contribute to economic growth, e.g. in creating more work places in certain spheres, especially in the services area or food production.

Certainly, in case of local production consumption, for example in Mexico, the purchase of clothes or food produced there using money earned in the United States translates into "increased demand, met through the productive consumption of additional raw materials, machinery and labor power" (Binford, 2003: 314). Then workers involved in making or producing those goods spend their wages, the contribution of remittances to economic growth also increases – "[i]n the end, the indirect effects of migradollars may equal or exceed their direct effects" (Durand et al., 1996: 425). According to Binford (2003: 314), even those items consumed everyday such as beer, music, decorations, etc., would have multiplier effects to the extent that the products are produced locally using local labor power and materials. Following the positive effect of consumption on economic growth, Durand et al. argue:

> By focusing narrowly on the large share of migradollars spent on consumption [...] prior research has grossly undervalued the role of US earnings in promoting economic development within Mexico. By ignoring the varied and substantial multiplier effects of consumer spending, investigators have failed to appreciate how migradollars contribute to growth indirectly as they work their way through national, regional and local economies. As a result of these deficiencies, the prevailing picture of Mexico–US labor migration is far too pessimistic. (1996: 425)

Positive remittance outcomes both direct and indirect, through investment as well as through consumption should not be under-valuated. They may decrease the levels of poverty or even break the cycle of poverty in the developing countries. Surely, there are other factors influencing the effects of remitted money such as different countries' characteristics and customs, but it would require additional examination. The investigation of the consequences of remittances on poverty reduction will be presented in the following section.

### *2.2 Remittances and Poverty Reduction*

The relationship between remittances and poverty reduction is usually seen as the direct effect on the income of recipients. Remittances are normally forwarded towards the households with a need of them – the process which supposed to reduce poverty and inequality (Grabel, 2008: 10). In addition, the indirect effects on recipient economies, such as long-term economic growth, creation of human capital and the access to labour markets are also important. Therefore, it is necessary to look deeper at the connection and distinguish between the impacts of remittances on *transient poverty* and *structural poverty* (see Grabel, 2008).

Empirical evidence clearly shows that remitted money directly decreases *transient poverty,* by increasing the income of the households (e.g. Grabel, 2008: 11). The flows are usually directed to the people who really need them. Furthermore, remitting does not require a 'costly bureaucracy' and "far less of it is likely to be siphoned off into the pockets of corrupt government officials" (Kapur 2004: 10). Consequently Jones (1998) argues that sending money from abroad is a reliable 'bottom-up' method of redistributing welfare among the population of developing countries. Such increased income plays an important role in increasing the consumption and expenditure of the poor, which can also be described as a 'critical insurance function'. (Kapur, 2004: 10) Hence, together with its impact on economic growth, increased consumption could be followed by the rise in poor households' standard of living and eventually reduce poverty (Jongwanich, 2007: 7). Within families, remittances may provide younger people with an opportunity to run away from so called "paternal authority" (Akesson, 2010: 3), which would contribute in breaking the 'circle of poverty'. Even though parents could not get educated, they may help their children using external financing, such as money sent by relatives living abroad.

In addition, scholars such as Grabel (2008) and Akesson (2010), promote the view that remittances affect long term structural poverty through both direct and indirect channels. As Grabel (2008: 11) notes, “the extent to which remittances reduce structural poverty depends very much on ‘*selection effects*’, i.e., on the *income* and *skill*s of migrants themselves”. In case of migrants coming from the poorest part of a society, remittances will raise incomes of the poorest families and so will play a part in reducing households’ poverty. Equally, if a lot of migrants are from the lowest level of labour market, the reduced labour supply would make wages rise for lower-skilled workers left in that market level. As a result, structural poverty will be reduced by the joined direct and indirect effects: the receipt of remittances and increased wages of the unskilled workers who are left behind (Grabel, 2008: 11).

On the other hand, some scholars assert that the main beneficiaries of received remittances are middle class of the population, which receive almost half of all money sent by relatives or friends working abroad worldwide (see de Haas, 2007: 11). It can be argued that for the members of the society, who are at the bottom of the socioeconomic structure, mobility through migration and remittances is rarely a possibility, mainly due to insufficient funds. Even though it might increase inequality in the society, it does not necessarily boost poverty. Even if migration and especially received remittances often makes the rich even richer, according to Akesson “the most underprivileged do not necessarily become poorer in real terms” (2010: 3).

The empirical evidence as well shows the positive impact of remitted funds on poverty decrease in migrant sending areas. For example, Adams and Page (2005) examined the impacts of remittances on poverty in 71 developing countries. Their findings reveal that both international migration and remittances notably reduce the level and severity of poverty in the analyzed countries. Also, Carrasco and Ro (2007: 8) show that remittances have reduced poverty levels in several developing nations. The study confirms that a per capita increase of 10% in international remittances leads to a 3.5% reduction in people living in poverty. It is concluded that remittances can be linked to the reduced poverty in numerous low income states such as Guatemala (20% reduction), Uganda (11% reduction) and Bangladesh (6% reduction).

## CHAPTER 3: REMITTANCES AND INEQUALITY

According to some authors (e.g. Cohen, 2005), there are two ways in analyzing the impact of remittances on development: *macro* or *micro* levels. Macro level approaches to remittance practices and migration focus on what Castles and Miller (2009: 28) explain as the "political economy of the world market, interstate relationships, and the laws, structures and practices established [...] to control migration settlement." Moreover, remittances are framed in terms of global flows and the national impacts of money that is returned by migrants to their countries of origin (as described in the introductory sections). As it is (Massey et al., 1998: 223, in Cohen, 2005: 91) identified much of the macro-level analysis pay attention to the indirect effects of migration and focuses on national patterns and outcomes, mainly in terms of labor patterns and foreign exchange. However, it fails to explain what the flows actually mean for communities of origin and migrant-sending households (Cohen, 2005: 91). On the other hand, micro level approaches pay attention to the dependent nature of migration outcomes and argue that "remittances distort local socio-economic systems and literally addict migrants to continued movement, to the detriment and decline of traditional social and cultural practices" (Reichert, 1981: 57, in Cohen, 2005: 94). In this chapter I will mainly concentrate on the micro level and analyze the impact of remittances on inequality.



### *3.1 The Effects of Remittances on Inequalities: Dependency vs. Development*

Development and dependency approaches can be separated in the debate about remittances (see Cohen, 2004; Akesson, 2010). The supporters of the development school emphasize the economic growth which is caused by migrants' remittances and their use back in the home countries. Instead, critical social scientists in favour of the dependency school argue that "migration worsens local socioeconomic inequalities and leads to unproductive consumption" (Akesson, 2010: 2). The conclusion that only a small part of remittances are used for investment and therefore are not productive creates negative views about the possible developmental outcomes of remittances. The distinction between 'productive' and 'unproductive' use of remittances also has to be specified. I would suggest that the view about spending on housing, health and education as being 'consumption' (e.g. Cohen, 2004, in Akesson, 2010: 3) should rather be seen as a productive investment, creating benefits in the future.

The supporters of the dependency approach notice that social inequality and conflicts are likely to increase as remittances are sent to origin communities and households. Particularly, inequalities arise between migrant and non-migrant households as the latter "lose economic status in comparison to the rising incomes of the migrant households around them" (Massey et al., 1998: 268 in Cohen, 2005: 95) and so participating in inequality increase. Stark, Taylor, and Yitzhaki (1986) argue that these inequalities originate from the differences between early migrants and non-migrants. As early movers usually have higher costs and risks when they leave the country of origin, it is also more likely that they come from relatively wealthier households. Consequently, remittances further widen the gaps between social inequalities that are created in origin communities (Cohen, 2005: 95). If remittances increase social inequality in the migrant sending areas, migration may eventually become a self-perpetuating process, increasing income for some households while making others, those who do not receive remittances, relatively deprived. This could advance the possibility of future migration only by people from the relatively deprived households (Taylor, 1999: 80).



### *3.2 Income Inequality*

Remittances are a main source of income in a lot of developing countries. While some studies imply that remittances are household inequality increasing (see Rodriguez, 1998; Barham and Boucher, 1998); others claim that they reduce it (e.g. Ahlburg, 1996).

Before I have started concentrating on the different variables which influence the effect of remittances on inequality, I would like to adopt Jones (1998: 11) model specifying how the availability of remitted money, the used networks and the decision to remit and how to use received funds is related to each other. Most importantly, when dealing with international migration and aspects of development, specifically inequality, the feature of *migration selectivity* (see Figure 4) requires further investigation (Jones, 1998: 10).

In relation to *migration selectivity*, some studies assert that the process of international migration selects a specific demographic subgroup of the people. Since the selectivity determines the ones who get remittances, it goes along that inequality itself is effected by the process (Jones, 1998: 12). Dependency scholars such as Mines (1981) are more likely to argue that most migrants are from above average income households, what impacts the increase in inequality and so creates a 'migrant elite' (Jones, 1998: 12). On the other hand, developmental approach supporters counter the latter argument and stress that inequalities are reduces because those from below average income migrate and later remit.

It is also significant to note the impact of *subsequent migration* (Fig. 4), or as named by Jones (1998: 11) a 'migrant syndrome', which addicts migrants to 'perpetual return trips'. In case of migration from richer households, the migration process would be perpetuated mainly from those households. In the end the income inequality would be increased (Dependency approach view). However, from a developmental perspective, subsequent migration does not exist. Instead, remitted funds are productively invested, that lessen the need for further migration in a long run due to economic growth.

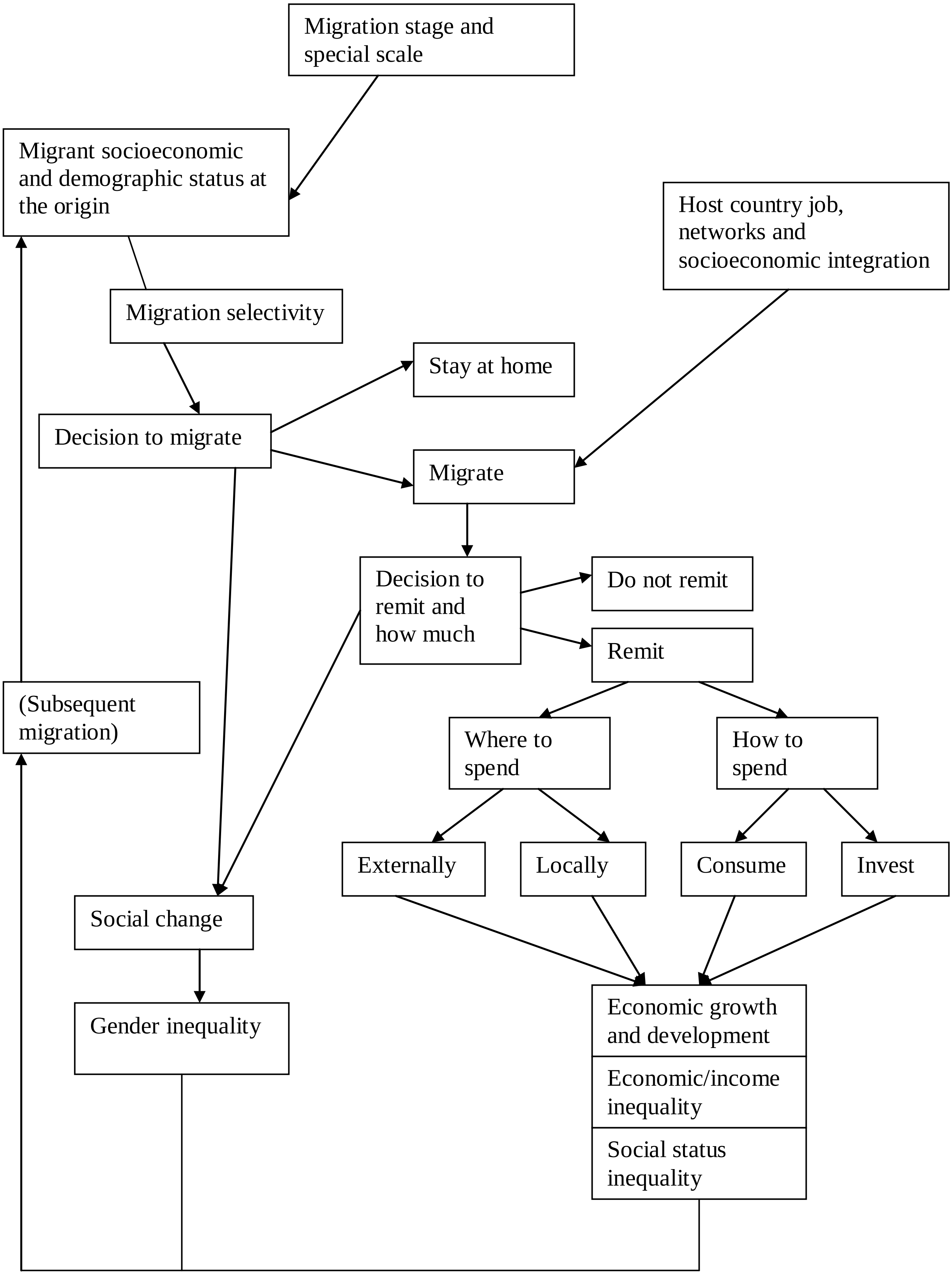



**Figure 4:** Migration, Remittances and Inequality (adopted from Jones, 1998: 11)

I would also consent that the contribution of remittances to increasing or decreasing income inequality depends on who is migrating and therefore who is remitting (also see Konig and Wodon, 2005). If migrants come from poorer parts of the community, their remittances are more expected to have a reduction in inequality effect, because overall "poorer families are going to receive the extra income from remittances". In contrast, if people who migrate are from better off background, their money sent back is more likely to increase inequality "since comparatively richer families will benefit from the extra income" (Konig and Wodon, 2005: 2). However, despite these basic arguments, we need to look deeper in the process and investigate other factors which influence the effect of remittances on income inequity.

The variables such *as scale* and *time* are important in analyzing the impacts of remitted money on inequality (see Jones, 1998). Also, according to Black et al. (2006: 3), the impacts of migrant remittances on income distribution depend on several factors, for example:

- "the degree to which migration opportunities were diffused across the households";
- "an area's migration history";
- "the returns to human capital embodied in remittances";
- "the distribution of potentially remittance-enhancing skills and education".

To examine them, two Mexican villages with significant difference in their migration scale are chosen (see Stark, Taylor and Yitzhaki, 1988, in Black et al., 2006: 4). The results of the first one, with a short history of sending migrants to the US, showed that the remittances had a strong negative impact on income distribution. In contrast, in the second village with a long history of migration, remittances were found to have an equalising impact on income.

According to the previously stated study, the stage of migration is a significant variable to look at: in its early stages migration can be costly and risky, whereas later it might enter a phase in which it becomes self-sustainable. Furthermore, time has an influence on the outcomes both related to migration's history in general and to the life cycle of the migrant household (Cohen, 2005: 100). Massey (1990) clarifies this course of migration. It develops from a decision made by migrants with resources to support their temporary stay to an opportunity open to a diverse population. It can also be explained using *migrant network theory*[4] as each migration (whether we are focused on a whole nation, region or household) decreases the risk for the future migrants (see Fig. 4). Therefore, there is a possibility that in the long run remittances would increase, due to the reduced risks and costs and increased number of people emigrating for work purposes (Cohen, 2005: 100). Indeed, some scholars (see Adams, 1991, Jones 1998) have investigated this process and revealed that, even though the costs of migration are high at the beginning and households face losses in an early stage; due to returned remittances, a household's overall expenditure typically increases (see Adams, 1991; Jones, 1998; Taylor, 1992**,** Cohen, 2005: 100).

Again, when taking into the consideration the latter analyses, it is important to differentiate between the households with the history of migration and who receive remittances and those without. It is clear that inequality may increase between the latter and the former. It would increase due to the fact that the members from the poorest households simply do not have the means to emigrate so just wealthier people are able to migrate away and therefore send back remittances (Ratha, 2004). This would create a vicious circle, leaving the poor behind.  On the other hand, there is a possibility that inequality would decrease because remittances help the families in a need of the external financial support, whereas



[4] The theory originates in sociology and anthropology. It says that the family and community are crucial variables in migration networks. The created linkages provide the social, cultural and financial capital, which makes migration possible (Castles and Milers, 2009: 29).

those who do not receive remittances, simply have other types of funds. In the long run income among households should become more equal than before emigration (Ratha, 2004).

The latter findings ask for a further examination whether the changes over time make the inequalities in the communities of origin increase. According to Massey et al. (1998), an increase in inequality during the early phases of migration is very possible. The initial migrants are the wealthier ones with better resources to flee. At this stage, inequalities show some signs of increasing as poorer members of the society do not have the means to flee. However, as migration grows and matures, the migrant networks develop, the costs and risks of movement decline, therefore inequalities should also be reduced with opening opportunities to migrate (Cohen, 2005: 101). The analysis conducted by Taylor et al. (2003) shows this process using the example of Chinese migrants. The scholars revealed that migration has a short-term negative impact on equality, mainly for rural industrialists who emigrate from China to other countries for better wages. However, it is noted that over the long term, migration has a positive impact on the economic status of farming households, mainly due to received remittances (Cohen, 2005: 101). Also, another examination (Grieco, 2003, in Cohen, 2005: 101) looked at the ties between Micronesians who left for Hawaii and Guam and their home communities. Is is confirmed that time plays a significant role in remittance sending practice. During the later stages of migration the ties between migrants and their Micronesian communities became stronger (also, proving migrant network theory) and therefore fostered the continuation of sending remittances.

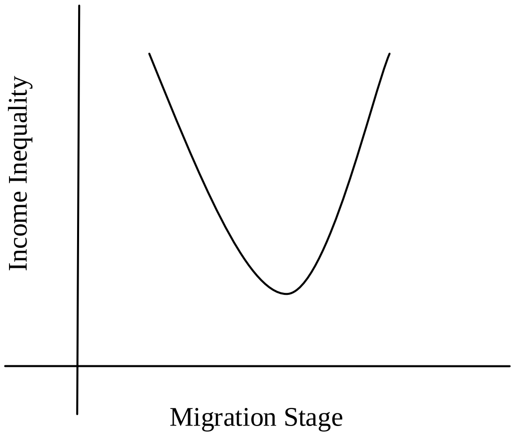



**Figure 5**: U-curve: Relationship between Migration stage and Inequality (adopted from Jones, 1998: 14; also mentioned in Binford, 2003: 317)

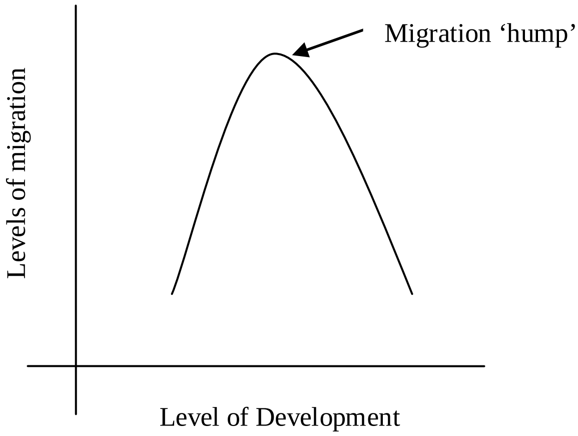



**Figure 6:** Non-linear relationship between level of development and levels of migration (adopted from Jones, 1998; and Black et al., 2005: 4)

With respect to migration stage, Jones (1998: 14; also mentioned in Binford, 2003: 317) presents a U-shaped curve (Figure 5). To analyze the model, it is important to emphasize the difference between structuralists and functionalists. The former school argues that migration increases income inequality, whereas the latter has the opposite view. The difference is based on studies conducted in communities experiencing diverse migration stages: structuralists examined communities at early or late stages and functionalists are more interested in the middle stages (Binford, 2003: 318).

The areas experiencing very low or very high levels of migration show growing local income inequality, whereas regions display declining inequality during middle stages of migration. Jones (1994; 1998) notes that the 'early adopters' (also called as *Innovation Stage*) of migration mainly come from middle economic sectors having enough resources to make a trip, and so "migrant incomes would enable them to improve their economic position relative to that of non-migrants" (Binford, 2003: 318) and so increase household income inequalities. But in the middle stage migration levels also expand to and among poorer people, who benefit from the growing social networks (discussed by Massey et al., 1994; Castles and Miller, 2009). In this stage the poor are able to enter the migration circle easier, resulting in the larger numbers of remittances and in a decline in income inequality in comparison to the prior Innovation Stage. Eventually, migrant networks are well established and a lot of households are drawn into so called *Late Adopter Stage*. At this phase income inequality starts rising again because households without remittances are in a 'reduced group of non-adopters' (Binford, 2003: 318) which are left behind.

Furthermore, the relationship between remittances and inequality depend on the distribution of income before emigrating. Initial wealth is a factor in determining whether a given individual will migrate. It brings the importance of *the level of development* of the country into consideration (the relationship is shown in Figure 6). At the beginning due to the low levels of development and therefore poorness, the migrants cannot flee. However, as wealth increases, the number of household which can afford migrating also increases. In the later stages of migration, the rates of migrants should start decreasing, simply because people do not see a reason to flee. Consequently, migration levels first increase and then decrease, with highest level in the middle stage, what is known as the 'migration hump' (Black et al., 2005: 4).

The figures 4 and 5 can be combined to explain the relationship between income inequality and the levels of development. We can see that in the developing states in the early levels of development, the migration flows are low. This also represents the initial stage of migration (or 'early adopters' stage as named by Jones, 1998). During this period, the income inequality is high, meaning that the rich can afford to move and therefore remit funds to their countries of origin. It further increases inequality. However, in the later stages of development, more people can afford to flee due to created migrant networks and increased incomes. At this middle period higher emigration creates competition in the labour market with the consequence of increased wages. Higher salaries of poorer together with received remittances play a role in reducing inequality in the societies of the developing states. Finally, during the later development level, the emigration decreases again (also known as 'Late Adapter stage'). This is mainly due to the fact that people no longer see a reason to look for a job abroad as salaries and job opportunities have changed into their favour. Still, according to Jones' model (1998), inequality at this stage increase again. In might happen due to several reasons. Social remittances of those who repatriated have become more valuable in labour market, therefore labour market itself has shrunk.

Even though the time and stage of migration is emphasized by many scholars, I would argue that in the contemporary world the role of the latter variables may be affected by the phenomenon of globalization. In case of legal migration (e.g. EU Schengen System), cheaper traveling, increased networks, better knowledge of foreign languages increase the chances to move abroad for work purposes and then, by sending back remittances, help families in the countries of origin (Castles and Miller, 2009)

In this context it is indeed important to understand the role of globalized world. The increased possibilities for migrants to live abroad and communicate with their families who are left in the countries of origin are significant (de Hass, 2005: 1273). New opportunities are related to the enormously improved technical possibilities, which let migrants foster links with their societies of origin through "the (mobile) telephone, fax, television and the internet, and to remit money through globalised banking systems or informal channels" (de Haas, 2005: 1273). This increasingly enables migrants even from poor backgrounds to travel, work and help their families and communities through remitting money.

Having in mind that nowadays more people, even from poorer backgrounds, have a chance to migrate, I would like to further question the idea of increasing inequalities between migrant and non-migrant households. It seems that non-migrants occasionally identify themselves as deprived when their 'immobile' lifestyle contrasts with the returning migrants or the households supported by remittances (Taylor and Wyatt, 1996). However, I would argue that it cannot be specified as the increase in inequality (also see Malmberg, 1997). Non-migrants often find and benefit from new opportunities other than migration, alleviating the need to flee. According to Cohen (2005: 102), this is “particularly true where opportunities tied to tourism, state development, and local markets are available”. New dimension is brought into the study by adding the importance of the level of development. In more developed states, there are more opportunities to stay and use other options, whereas in less developed countries there is lack of opportunities and people are forced to migrate. Due to the globalization, they can easier do so.

However, the previous views can be countered and argued that at the same time migrants from developing countries are facing higher obstacles to migrate to developed countries. It mainly happens due to the lack of legal migration channels, which increases the dominance of illegal smugglers charging excessive sums (Castles and Miller, 2009: 201). Furthermore, upon the arrival illegal migrants are usually lacking salary protections and face higher risks of exploitability. In line with it, income inequalities would be certainly increased, as the poorest still could not even afford to migrate (Castles and Miller, 2009: 300-305).

Also contemporary, an important issue concerning the relationship between remittances and income inequality is the interaction of ‘*selection effects*’ (also briefly discussed in the ‘Remittances and Poverty Reduction’ section): e.g. remittance behaviour between different income groups, the nature of contemporary immigration policies in wealthy countries and the level of education. According to some empirical studies (e.g. Grabel, 2008: 13), remittances from unskilled migrants in absolute terms are a lot higher comparing to funds remitted by skilled, better educated and more economically advantaged migrants. According to this view, remitted funds go to those in need of them and therefore income inequalities should be reduced. However, currently developed countries have been introducing immigration policies favouring highly skilled and educated emigrants (e.g. Australian point system). It has the impact on highlighting 'selection bias' in migration process. As a result, since remittances would flow to those who need them least, this 'selection bias' raises the possibility that remitted money will worsen household income inequality in developing countries (Grabel, 2008: 13).

This section has concentrated on the effects of remittances on income inequalities. Basing on the existing research, I assert that remittance-inequality system is partially grounded on demographic subgroups (the division between the poor and the rich). Though, the analysis of the impacts on inequality must also include other factors, such as the stage of migration and the level of the development. However, this structure may be distorted by the phenomenon of globalization and political immigration policies.

### *3.3 Remittances and Social Status Inequality*

Whereas income inequalities were based on household level, this section will focus on social status inequalities. They are similar to the former ones, however are more inclined towards national level of analysis. It will be looked if there is any difference between former and the latter and it will be checked if scholars arguing that migrants' money flows tend to worsen social stratification (e.g. Naiditch and Vranceanu, 2011; Akesson, 2010) are correct.

The effects of migration and remittances on social status inequality as well depend on the stage of migration (as it does on income inequality). There is a difference between the places with the history of people movements abroad and places where migration is a new phenomenon (Massey et al. 1994 in Akesson, 2010: 1). The countries in which migration has just begun, migrants usually are from the middle level of the local socioeconomic spectrum. By contrast, in the states with a long history of mobility, migration tends to become less selective and more representative of the whole community. Therefore, more people from different socioeconomic strata tend to receive remittances (Cohen 2004). Based on these hypotheses, it can be stated that "when remittances become institutionalized within local livelihoods, the inflow of money from abroad does not have a negative impact on patterns of social status inequality" (Akesson, 2010: 1).

Recently scholars have been arguing against earlier claims that "international labour migration necessarily leads to increasing economic and social differentiation by widening the gap between a migrant elite with access to remittances and non-migrants without such access" (Binford, 2003: 317). If remittances are used properly, through the indirect effects such as schools development, social status inequality may not be completely stopped, but at least reduced. Using remittances for sending children to school or higher education or building living houses may be some of the few possible ways to challenge a social order where "a small traditional elite dominates the rest of the people" (Akesson, 2010: 3). After investigating the situation in Bangladesh, van Doorn (2004) revealed that 4.8% of remittances is used to start a business, 3.5% for loan payments, 3.1% is put aside for savings and 2.8% is spent on education. Cohen (2005: 101) after conducting the Bangladeshi analysis found a little larger percentage of remittances (about 8%) invested in business or agricultural in Bangladesh, whereas 6% spent on education. Even though just a small proportion of remittances is spent on productive investment, in the long run it can lead to increased equality in the society. For instance, improved access to education could provide children from poor families a chance to get better access to schools.

In contrast, Lipton (1980: 227), for instance, in a study of 40 villages in India focusing on the international migration, found that "migration increases intra-rural inequalities […] because better-off migrants are 'pulled' toward fairly firm prospects of a job (in a city or abroad), whereas the poor are 'pushed' by rural poverty and labor-replacing methods". Also, Stahl (1982: 883) (also mentioned in Jongwanich, 2007: 7) emphasizes that "migration, particularly international migration, can be an expensive venture; […] clearly, it is going to be the better-off households which will be more capable of producing international migrants" and sending remittances. While the poor would not benefit from such remittance flows, they tend to create social status inequality (Jongwanich, 2007: 7). Adams (1991: 34) looks at the impact of international remittances of Pakistani migrants on inequality and argues that "remittances worsened income distribution in the country". Class structure is used to explain the negative impact on inequality reduction. Because migrants usually are from the upper class, their money sent back simply helps only their families, negatively affecting income distribution in the society. Even though "remittances income makes just a small share in total income, it is itself distributed very unequally" (Adam, 1991: 34). This is again a corresponding finding to income inequality, where demographic subgroup division was emphasized.

Migrants may also be concerned about their prestige or social status in the eyes of those left home. In some cases, their and their families' economic situation can be shown by remitting large amounts and so increasing their social status (Naiditch and Vranceanu, 2011: 3). However, apart from increasing their social status in the neighbourhood, it is just a temporary condition, which does not affect the overall situation in the society.

### *3.4 Remittances and Gender Inequality*



In addition to income and social inequality, it is also important to point out the impacts of remittances on gender inequality relations. It is frequently believed that female migration and its consequences play a significant part in changing gender relations and eventually it can promote gender equality (Helmich, 2009: 16). Especially, due to the increased number of female migrants - nowadays almost half of the international migrants are women (UNDP, 2009: 25). As a result, it can enhance the development of societies, as "gender equality is seen as an important aspect of development" (Helmich, 2009: 16). To mark its significance, gender equality and empowerment of women also come as an important aims in the Millennium Development Goals[5]. According to the United Nations report:

> the fact that female migrants can become breadwinners […] constitutes an abrupt break with traditional gender roles. This applies even in cases where the woman worked prior to migrating or when the husband of the migrant continues to contribute to the family budget, since remittances sent by the migrant often become the main source of income for the household [and] by shifting a woman's reproductive role to that of an economic provider, power relations in the household must be rewritten and can take different forms (UN-INSTRAW, 2006: 9)

Empirical data (see Chammartin, 2008: vi) reveals that migrant women are more likely to remit a larger proportion of their incomes than migrant men, even if their salaries are lower. Also, there is a difference in the motivations to remit since men would rather send funds for investment purposes, whereas women are more likely to remit for the well-being of their family (for example education or health). Also, women usually remit money for longer periods, thus their sent funds are seen as a more reliable source in a household's level, as "they focus more on the basic necessities for the family [and so] generate less inequality between households in their home country communities" (Chammartin, 2008: vi).

As it has been noted, the amount of remittances depends on gender. More specifically there is a difference "if women migrants go abroad as dependents[6] of their spouses or if they go abroad autonomously with the purpose of finding a job" (Chammartin, 2008: v). Dependent women are more likely to send less remittance compared to ones who migrate autonomously with the main purpose of sustaining the family left back home. Moreover, the level of sent remittances significantly depends on whether women migrants' participate in the labour market or not (Chammartin, 2008: v).



[5] The UN Summit on the Millennium Development Goals introduced a global action plan. It proposed to work on and achieve some goals in eight areas: end poverty and hunger; universal education; gender equality, child health; maternal health; combat HIV/AIDS; environmental sustainability; global partnership (UN, 2011).
[6] Usually family reunification and family formation (Chammartin, 2008)

Furthermore, received remittances may play a role in increasing women's decision-making power within the household, whereas sending remittances is also thought to help women improve their economic status. Sometimes migrant women even increase their power by remitting their money to other women, for instance sisters, mothers or daughters, instead of their husbands and so "prevent it from being misspent by men and/or make sure that it is used and invested in accordance with their wishes" (Helmich, 2009: 17).

However, it is necessary to emphasize, that the increased power among female labour migrants can vary. It would depend on factors such as "the characteristics of their spouses and families and personal characteristics" (Helmich, 2009: 17), therefore, the impact of remittances on gender equality can be restricted. The United Nations after analyzing the case of Dominican Republic remarks that "when women migrate, neither men nor women expect the men to modify their roles and assume more responsibility in the management of the household and childcare […] so […] another woman have to take over the social reproduction duties of the female migrant" (UN-INSTRAW, 2006: 9). As a consequence, there is a significant increase in the workload of those women who help men. On the other hand, in case of migrating men, their spouses usually stay responsible for household social reproduction activities without any external help (Helmich, 2009: 17) and thus boosting the gender inequality. However, these are rear findings and mostly depend on the traditional background of the family.

As in Albania's case, young men are the ones who mainly migrate for work purposes from Albania to other countries, which is also a sign of Albanian society being strongly patriarchical in nature (Black et al., 2003: 56). King and Vullnetari (2003: 19) identify family structures to be an important part in the migration process, but they "are predicated on patriarchal authority in which the person receiving remittances and administering the family budget is usually the male head of household." For example, women from Albania working abroad are normally expected to send money back to their husbands' parents, instead of their own (King et al., 2003: 56). This would suggest that migration and remitting processes do not reduce gender inequalities in Albania (see Black et al., 2006). This is the example of a strong traditional society with firm cultural heritage.

Women receiving remittances might be seen as passive recipients; however it is an incorrect perception. These women have to manage the funds and also "adopt strategies aimed at diversifying income-generating activities in order to confront the irregularity or precariousness of remittances" (Ramirez et al., 2005: 39). As a consequence, many women become heads of households and increase their participation in productive activities[7] of the developing countries (Ramirez, 2005: 39).

By sending remittances to their families, migrant women gain new roles which have an effect both on a household and the community as a whole. Furthermore, in the case of women receiving remittances, they are also expected to experience changes in gender equality, as they usually increase their "responsibilities and acquire greater autonomy in deciding how remittances are to be used" (Ramirez et al., 2005: 35-36). The United Nations report further confirms the role of gender equalization: "the receipt and administration of remittances can increase the power and status of female recipients" (UN-INSTRAW, 2006: 16).

One of the key factors to be considered in the evaluation of development is the role of remittances sent by women on balancing the power within unequal gender relations. As I have already showed, "remittances contribute in a decisive manner to the improvement of women's economic status in both countries of origin and destination" (Ramirez et al., 2005: 35). Despite remitted money, the transfers of attitudes and behaviour from developed to

[7] For instance, participation in the regional labor market (Ramirez, 2005: 39)

developing countries described as 'social remittances'[8] by Peggy Levitt (1998) can also have a significant impact on development and "endorsement of equality, as well as gender equality". (Ramirez et al., 2005: 35)

### *3.5 Global Inequality between Countries: Can Remittances Substitute 'Brain Drain'?*

The most frequent argument used against the migration phenomenon as a developmental tool is that it drains poor countries from their valuable human resources, who are most of the time high skilled. According to structuralists and dependency theorists, the brain drain is the negative impact of migration, which "undermines rather than stimulates development in origin countries, and reinforces rather than alleviates global inequalities" (de Haas, 2007: 22).

However, in the case of the consequences of migration, it is important to distinguish the frequently mentioned negative effects (such as brain drain) from the often positive long-term effects of the emigration of highly skilled citizens. Even though the positive impacts depend on the political, economic and social conditions in origin countries, de Haas notes that, "the departure of the highly skilled may have beneficial effects in the form of a counter flow of remittances, investments, trade relations, skills, knowledge, innovations, attitudes and information in the long run" (2007: 22). For example, migrants have a role as transnational entrepreneurs and investors in migrant sending countries such as India, the Republic of Korea and Taiwan - the countries among the biggest remittances receivers. It has become obvious that "migrants' contribution to development is not conditional upon their return, and that many migrants live transnational lives, combining activities in origin and destination countries" (de Haas, 2007: 22). This confirms the belief of the positive effect of "the potential durability of remittances", arguing against negative views that talk about the

[8] Social remittances – "the ideas, behaviors, identities and social capital that flow from receiving to sending country communities" (Levitt, 1998: 926)

"inevitable loss for origin countries" (de Haas, 2007: 22). Migrants seem to have an ability to contribute to the development of their home countries and so reduce the global inequality.

In addition, "brain drain" can be replaced by a positive "brain gain" phenomenon (Lowell and Findlay, 2002), due to the visible prospects of moving abroad, those who stay home may see the incentive to pursue education so they have the same opportunities afterwards (World Bank 2005: 68). This position clarifies how the numbers of educated workers increase in a country (a brain gain) in spite of the still existing *brain drain* factor and the "educated unemployment" common in a lot of countries in the early development stage (de Haas, 2007: 22). Furthermore, due to the skilled workers' surplus (or "educated unemployment"), the possibilities of migrating and then sending both monetary and later social remittances, would be useful for the developing country.

Also, remitted money can be used for productive long term investment - building schools and buying school equipment. Eventually the number of educated people in developing countries would rise and so it would reduce global inequality between developed and developing contries. For instance, in El Salvador, remittances tend to decrease the chance of children dropping out of school (see Cox and Ureta, 2003). Another study reveals that Mexican pupils in migrant households finish schools notably more often, "with the largest impact for girls in households where the mother has a low level of schooling" (de Haas, 2007: 22). It would also further alleviate the gender inequalities in the societies.

## CONCLUSION

Remittances have become one of the key phenomena in global finance, as well as in economic and social life, greatly affecting developing countries. After the extensive and critical analysis of the existing literature I have found numerous different and conflicting conclusions on the effects of remittances on inequality. Firstly, the difference is felt between social scientists and economists who draw different conclusions ranging between dependency and development approaches. Some sociologists and anthropologists are seen to be in favour of the dependency approach, noting that migration and remittances negatively affect socioeconomic inequalities. Also, they argue that remitted money leads to unproductive consumption. On the other hand, development supporters stress the economic growth, poverty decrease and inequality reduction as caused by remittance use. Economists are usually simply looking at the exact flows of money sent; whereas political scientists, anthropologists or sociologists investigate further aspects such as demographic subgroups, the stage of migration, the level of development or cultural climate etc.

In addition, the diverse views might be the result of scholarships referring to different level of analysis. I assert that the impact of remittances on inequality varies depending on the level of analysis[9]. In household and local levels income, social status and gender inequality decreases, but in the long run a strong impact might be felt on the international/global level due to transferred resources from developed to developing countries. However, this field requires further research and examination.

Following the presentation of the extent and composition of remitted money, the most common motivations to remit and the difference between formal and informal channels have been shown. It is stressed that governments should promote formal channels of



[9] Is it important to study the world using three levels of analysis: to study people as individuals or as a species (individual-level analysis), to analyze countries as separate units (state-level analysis) or to refer to the world as a whole – global-level analysis (Rourke, 2005).

remitting, so funds transferred would have a greater impact on development – economic growth as well as inequality reduction.

While remittances to the developing countries are rather stable and can positively influence economic growth and simultaneously reduce poverty, the rapid increase in such flows could also produce negative effects on the local economy. For instance, they impede the economic growth and cause the 'Dutch Disease' (as it was described by Jongwanich, 2007). The debate about the difference between 'productive' and 'unproductive' use of remittances has also been discussed. Hence, even though some researchers argue that economic growth can be achieved only if remittances are invested, I conclude that the expenditures on consumption items should not be seen as a negative aspect. Spending on local goods might result in a more positive outcome, but even expenditure on imported items may contribute, for example, to creating more work places in certain fields, especially in the service area.

The discussion about the impact of remittances on poverty is divided into two segments: the impact on transient poverty and structural poverty. It has been stressed that there is a positive impact on poverty decrease on households in developing countries, as remittances are usually forwarded towards the households in need of them. As a result, it contributes to raising poor families' standard of living.

In the main part (Chapter 3) I have concentrated on the impacts that remittances have on inequalities. Regarding that, I looked at its different types, such as income, status, gender and spatial inequities. It has been found that the overall impact of remittances on inequality depends on the amount of migrants coming from different income groups. It has been highlighted that the remittances of migrants, who come from poorer parts of the population, are expected to have a reduction in inequality effect. Normally poorer households would receive the needed extra income from remittances. In contrast, if most migrants are rich, the received funds are more likely to boost inequality in the society.

After the analysis of demographic subgroups, I have also investigated other factors influencing the effect of remittances on income and social inequities. The factors such as *the stage of migration* and *the level of development* have been taken into account. It has been stressed that areas with very low or very high levels of development and migration experience high inequality, whereas both declining income and social inequalities were found during middle stages. However, this structure may be distorted by the phenomenon of globalization and various immigration policies.

My analysis has also contributed to the existing literature with a new way of looking at the remittances and development, especially putting the different and diverse types of existing inequality (such as income and gender) together. A growing number of women migrants has been experienced recently. Through remitting they contribute to the budget of their households and also to the development of their origin communities. As a new link between remittances and development, gender equity has been examined. It is found that remittances play a role in increasing gender equality by, for instance, helping women gain new roles.

In a more global perspective, the debate about 'brain drain' vs. 'brain gain' has been introduced. In this thesis, it has been shown that remittances actually can 'substitute' skilled emigrants, especially in cases such as 'educated unemployment' in home countries, also known as *skilled workers surplus*.

After doing this analysis, I have realized the existence of a relatively poor and inconsistent base of underlying data and information on the real flows of remittances. These problems, in my opinion, are encountered due to undocumented flows of migrants and the money sent back home through unofficial channels. Governments and international organizations should put more effort in counting money sent through informal channels and encourage migrants to use formal ones. The debates about the structure and most importantly – effects - of remittances seem to be continuous. There is an impression that most scholars admit the fact that remittances will not stop having a growing impact on the economies and societies of both developed and developing countries, which, as a result, requires a further study and analysis of the phenomenon.

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