

# **The role of remittances in the household's economies. The case of Mexico.**

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## **Background**

The value of remittances received in Mexico in 2003 was \$13.25 billion, which is 35 percent higher than the year before. Such amount represents the third source of foreign exchange for the country, just behind the income of the oil exportation and the earnings from In-Bond Industry –*maquila*, and overcoming both the direct foreign investment and the tourist revenues. Furthermore, in the second half of the nineties the number of households that receive remittances doubled, from less than 700 thousands in 1994 to around 1.4 million in 2002. Within these households, remittances tend to account for around 50 percent of their monetary income, so they are a non-replaceable source for the household's budget.

Because of their magnitude and their increasing tendency, remittances are enlarging their relative weight within the Mexican economy, in contrast to the volatility of other sources of foreign exchange (Ratha 2003). For this reason, the debate about the economic and social impacts of remittances is acquiring new life. Until the eighties a pessimistic view prevailed, because it was said that remittances led to structural distortions and discouraged autonomous development. However, the opposite view, which maintains that remittances can be one of the leading sources to finance the development within the migrant-sending communities, is becoming prevailing nowadays.

This debate about remittances has been developed around three axes, which roughly belong to three analytical levels:

At the macro economic level, the studies have focused both on the estimation of their impacts and multiplier effects and on the analysis of their macro economic determinants. From social accounting matrices, some estimations of the multiplier impact of remittances on the national economy have been done. In this way, for example, Adelman and Taylor (1990) estimated that this multiplier effect is 2.9. From this estimation, Durand, Parrado and Massey (1996) found that, at the village level, the indirect effect would be higher indeed, explaining more than the 50 percent of the production within several communities of Western Mexico.

By the way, about their social effects, the studies have focused on the role of remittances in the diminishing of the poverty and the social inequality. Regarding that, Jones (1998) maintains that, although at the first moment -when the families that have joined the migratory flow are few, the effect could be an increase of the inequalities within the community, as long as the emigration becomes more common it leads to a diminishing of them, as there are more families that receive remittances.

Finally, regarding the consequences of remittances on the household's patterns, the research has stressed the role of migration in the developing of social nets. Mainly, remittances are a component of the inflow of resources and goods -material and symbolic, that strengths and increases the household social capital, providing it with a trans-national dimension that surpasses the narrow limits of the community.

However, it is worth noticing that, until now, there are few researches that have analyzed and estimated the role of remittances in the economic behaviour of households. Specifically, their role in the shaping of the households' budget, in their saving and investment ability, and in the improvement of their well-being. Considering that the overwhelming part of remittances is spent on current consumption, and that just a small percentage is employed in investment, a suitable knowledge of the impacts of remittances needs a deeper analysis of their effect within the household economy.

### **Planning of the research**

In this set, our proposal focuses on the analysis of the role of remittances in the economic patterns of the receiving households, and their function as a households' resource to face the precariousness that stems from the periodic economic crisis and the unequal structures prevailing in Mexico. Specifically, the target of our research is to better know the role of remittances in the households' economic behaviour, analyzing whereas the households that receive remittances have got a significantly different economic behaviour than the other ones. In case this was true, we would analyze which is the economic sense of these differences, and which effects they have got on the drawing of the household's economic patterns.

Regarding this role of remittances, we can distinguish the households' economic behaviour according to two dimensions:

- According to the living standards and the material and economic resources that the households have got to face the precariousness and poverty.
- On the other hand, according to their chances to invest in three levels: human capital formation, enlarging of the economic capital and lastly, consolidation of its social capital.

### **Methodological proposal**

From regression models, we can analyze and estimate the role of remittances both in the formation of human, economic and social capital, and in the living standards of the households. Likewise, these models allow us to insert a set of dimensions and controlling by those variables that offer us the chance to estimate in which way these differences amongst the households change when considering their socio-demographic and socioeconomic conditions. The model is drawn in the next table:

Statistical model for the analysis of the role of remittances in the households' economy		
Independent variables	Dependent variables	Control variables
1. Receiving remittances' household condition	<b>1. Human capital:</b> <ul style="list-style-type: none"> <li>attendance at school,</li> <li>attendance at school rate,</li> <li>family members scholarship,</li> <li>spending on education (total spending and its segments),</li> <li>per capita spending on education.</li> </ul>	<b>1. Household's Socio-demographic conditions:</b> <ul style="list-style-type: none"> <li>size and composition of the household,</li> <li>type of household,</li> <li>family's life cycle</li> <li>level and activity rate amongst the household's members,</li> <li>characteristics of the household's head.</li> </ul>
	<b>2. Economic capital:</b> <ul style="list-style-type: none"> <li>ownership of the house condition,</li> <li>characteristics of the house (type of floor, water availability...),</li> <li>availability of household's goods and services,</li> <li>income's level of the household.</li> </ul>	
2. Value of remittances		

## Data source

For the statistical analysis, we use the *Encuesta Nacional de Ingresos y Gastos de los Hogares* (National Survey of Income and Spending of Households), that the Instituto Nacional de Estadística, Geografía e Informática de México carries out each two years. Mainly, we use the survey that was done in 2002, which is the most recent one, although we also refer to the former ones. This survey provides figures about the following households' characteristics:

Dimension	Variables
Household's income	Monetary and financial, and its respective components.
Household's spending	Monetary, self-consumption and financial bonds, and its respective segments (regarding the monetary spending, we are able to use more than 800 categories, which allows an analysis in detail of the spending composition, mainly on education, health and food).
Socio-demographic conditions	Size and composition of the household, kind of household, socio-demographic characteristics of its members...
Socio-economic conditions	Characteristics of the house, ownership condition, availability of goods and services for the house, activity condition of its members...

## References

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