Gabriela Inchauste and Ernesto Stein (eds) (2013)

Financing the Family: Remittances to Central America in a Time of Crisis.

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With levels more than double the amount of official development assistance, remittances are the second most important source of foreign finance for the group of low and middle-income countries today. Due to their increasing magnitude, remittances rank high on the agenda of international institutions and policy makers who are trying to tap their potential for development. The book "Financing the Family: Remittances to Central America in a Time of Crisis", edited by Gabriela Inchauste and Ernesto Stein, is based on a collection of papers undertaken while the editors worked at the Inter-American Development Bank (IDB). Amongst others, the book emphasizes the effects of the financial crisis of 2008 on remittances to Central America and the Caribbean. Despite the use of statistical methods in the empirical chapters, it avoids technical language as much as possible and manages to speak to a wider audience composed of academics, as well as policy makers.

The book sets out reminding us of the relevance of the topic for Central America and the Caribbean, with Honduras and El Salvador ranging among the top ten receivers of remittances worldwide in relative terms. In the second chapter, Dean Yang provides a broad overview of the economic literature and identifies several areas that he considers to be under-researched, emphasizing in particular the effects of parental absence on household economies. According to Yang, a general methodological challenge for economists lies in a lack of detailed survey data in the home countries and in finding exogenous variation on migration and remittances that permits identification of their effects.

The empirical exercises in chapters 3 to 6 are taking up this challenge and present results of empirical research on remittances to Central America. Chapter 3 summarizes results of two randomized control trials with Salvadoran migrants by Yang and his team. In a first experiment, they find that migrants send money more often and larger total amounts when remittance fees are reduced. In a second experiment, they provide migrants with greater control over savings accounts in the home country. They find that the amount of savings increases considerably when migrants get more control over their funds. This finding may be the theoretically most interesting contribution of the book: While the New Economics of Labor Migration shifted the focus of analysis away from individuals towards the transnational household as a benefit-maximizing unit, the experiments by Yang et al. draw attention to information asymmetries and conflicts within transnational households. In what way new financial instruments affect transnational family relations and spending patterns are interesting questions that call for further research.

The remaining chapters treat the effects of the financial crisis on remittances to Central America. Based on country-level data, we know that remittances to the region decreased by almost 10% as a consequence of the crisis. Chapters 4 to 6 take a more detailed look at the transmission of the crisis to Central America via remittances, using a variety of data sources (survey data from the US, as well as the home countries) and quantitative methodologies. Gabriela Inchauste, Cesar Liendo and Ernesto Stein compare effects of changes in the U.S. labor markets on remittances to Guatemala, El Salvador, and the Dominican Republic (chapter 4). Both the direct effects, as well as the projected time to recover differ between countries due to different sectorial and geographical occupations of migrants. Viviane Azevedo, Cesar P. Buillon and Marcos Robles examine how a decline in remittances affects different segments of the population in Honduras and El Salvador (chapter 5). Their results suggest that the poor are most negatively affected, because wealthier households have better opportunities in the labor market to offset reductions in remittances. Finally, Diego Aycinena, Sebastian Calónico, Gabriela Inchauste, Claudia Martínez and Dean Yang study coping strategies of Salvadoran migrants and their families during the financial crisis (chapter 6). Between 2007 and 2009, migrants reported a decline in incomes, savings, hours worked and remittances sent. Also, households in El Salvador suffered from a decline in incomes and remittances during the same period, but they were able to maintain average levels of expenditures through increases in debt levels and labor supply.

The book makes valuable contributions to the literature on remittances by showing how the financial crisis affected remittances to Central America. Particularly chapter 3 by Yang provides interesting insights into intra-household relations and conflicts over the use of remittances. The main policy recommendations of facilitating the flow of remittances and providing migrants and their families with access to financial services sound familiar and reflect the dominant discourse within the IDB and other international organizations.

Although these recommendations have to be welcomed because they enhance available tools of asset-building and risk-management strategies of transnational households, the overall framing of the research questions remains of concern. The empirical chapters on the effects of the financial crisis emphasize the vulnerability of migrants and their families to adverse conditions in the host countries. However, they do not question the optimistic conception of migrants as actors for development who contribute to the economic development of their home countries through the sending of remittances. This line of reasoning departs (sometimes implicitly) from the assumption that obstacles to development lie primarily at the micro-level (e.g., a lack of access to finance). The additional capital from remittances may then remove some of these barriers and help households undertake investments in human capital (education, health) or physical capital (housing, enterprises) they could not afford otherwise.

In contrast, structuralist scholars have interpreted migration and remittances as responses to a lack of income opportunities at home (see de Haas, 2010 for a summary of changing paradigms on migration and development over the last decades). Although migration and remittances may improve the situation of households, these individual strategies do not necessarily lead to structural change and economic development in a broader sense. Perhaps, barriers to economic development lie not only and not even primarily at the micro-level, but at the national or global level. Equally, the main barriers might be imposed by politics and institutions; that is, all the areas that have traditionally been the focus of structuralist interpretations of development and underdevelopment. In both cases, the effect of migration and remittances on home countries would be less obvious. Structuralist scholars tended to see migration and remittances in a much more negative light than most of the contemporary literature. The empirical literature on the effects of remittances is instructive in this regard: It generally finds positive effects of remittances at the level of households, but no consistent evidence of either positive or negative effects at the macro- or meso-level. One the one hand, this might be due to methodological difficulties of separating the effects of migration or remittances from those that motivate migration. On the other hand, it suggests that the contexts in which migration and remittances take place are crucial factors for shaping the wider effects they have on home countries. This does not mean that we have to return to the general migration pessimism that prevailed among structuralists. There are cases where migration did play positive roles, also beyond the household level: Take, for example, the case of the Indian IT industry. However, this is generally not the case where overall contexts provide little incentives for migrants to get involved in local economic development with their money and know-how. In many cases, decades of migration and remittances have not contributed to broader positive dynamics, but to brain drain and remittances-dependency. In my opinion, the main omission not only of this book, but of much of the current literature on remittances (and migration more generally) is the absence of context as an intervening variable. In a book with a specific area focus such as the one discussed here, the reader might wish for more context-related discussion, which could be addressed by including interdisciplinary perspectives on migration, remittances, and development, and a wider methodological toolbox including both quantitative and qualitative approaches.

Bibliography

De Haas, Hein (2010): "Migration and development: a theoretical perspective." International Migration Review 44, 227-264.