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**Poverty Reduction and Decay in Sending: the Long-Term Macro-Economic Effects of Remittance Receipts in Mexico**

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## Abstract

Migrant remittances flow to one of every six households in Mexico, including many of the poor but also many of the middle class, according to an extensive survey of remittance receivers conducted by the Pew Hispanic Center this year. An analysis of the survey results and other data assesses the extent to which remittances are producing a reduction in poverty versus providing an economic cushion for families that are safely beyond poverty. An analysis of another survey which was conducted among Mexican migrants in the United States examines the phenomenon of “decay” in remittance sending—the drop off in remittance as migrants become settled and families reunite. The survey findings and other data allow an estimation of the conditions and chronology that produce declines in remittance sending. Both the extent of poverty reduction and the process of decay are major factors in assessing the long-term macro-economic impact of migration on Mexico

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As the flow of migrant remittances has increased in recent years, scholars, governments and international banks and development organizations have increasingly turned their attention to the economic impact of these money transfers. As a policy matter, the focus is on maximizing the beneficial economic effects of remittances on migrants' families, communities and home countries. As a research matter, remittance flows offer a quantitative window into the motivations, mechanisms and effects of international migration.

Survey data recently collected by the Pew Hispanic Center shed light on two questions that recur frequently in remittance discussion by both policy-makers and scholars:

- What are the redistributive effects of remittance receipts on migrant sending communities in terms of income and asset creation?
- To what extent is the pace remittance sending related to the extent of assimilation/acculturation by the sender?

## 1) Redistributive Effects and Uses of Remittances

A considerable body of research body undertaken by proponents of the New Economics of Labor Migration argues that migration is often the result of household, rather than individual, economic strategies and that remittance sending plays a critical role in a collective effort to maximize income and overcome restraints on asset creation. (Stark, 1991; (Taylor and Martin, 2001) As such, the household has become an accepted unit of analysis for measuring the receipt and uses of remittances.

Over the course of 2005 the Center purchased space on a monthly omnibus survey conducted by Consulta Mitfosky, a major Mexican polling firm. Each month the survey consisted of 1,000 or 1,200 interviews conducted in randomly selected households in 100 electoral precincts whose vote distribution among major parties is statistically representative along several criteria of the nation as a whole. Interviews were conducted in a total of 15,284 households. A total of 16.6 percent (N=2,466) responded positively to the question: ¿En este hogar han recibido dinero de parte de algún mexicano que viva o trabaje en los Estados

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Unidos? (Has someone in this household received money from someone from Mexico who lives/works in US?).

The question of how remittance receipts affect income inequality among households remains substantially unsettled. Several variables appear to influence results including the size of the population studied, from village to nation, the initial distribution of income in that population, its migration history and a host of economic conditions such as the availability of land and capital. (Taylor and Wyatt, 1996, Docquier and Rapoport, 2003)

A preliminary analysis of the Center's Mexican survey data suggests that on a national basis remittance receipts are reducing income inequality to some extent. The share of households reporting remittance receipts is even across broad income categories with those of low incomes as likely to be receiving as those with high incomes.(table 1) Also, the pace of receiving is roughly similar across all income groups with a plurality reporting receipts at least once a month Given the nature of income distribution in Mexico this means that a great many more families at the low end of the income spectrum are receiving remittances than at the high end of the spectrum. (table 2) The average amounts received by those in the high income group are significantly greater than those for the middle and low income categories, but the differences in household incomes are far greater still. As a result, it seems certain that a detailed analysis of the data will show that remittance receivers of low incomes are increasing their household income to a far greater degree through remittances than Mexicans of middle and high incomes. By having a greater positive effect on the household incomes of poor Mexicans compared to those of middle and high incomes, the data suggests that remittance do help reduce income inequality although this effect is somewhat muted because both migration and remittance receiving are such broad based phenomenon in Mexico today.

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Table 1: Monthly Family Income by households who receive remittances

	Monthly Family Income				
Receive Remittances	Low	Middle	High	NA	Total
Yes (Sí)	17%	16%	15%	15%	17%
No	82%	84%	85%	84%	83%
NA	1%	1%	0%	1%	1%
Total	100%	100%	100%	100%	100%

Source: Pew Hispanic Center Survey of Remittance Receivers in Mexico, 2005

Table 2: Households Receiving Remittances by Monthly Family Income

	Monthly Family Income				
Receive Remittances	Low	Middle	High	NA	Total
Yes (Sí)	58%	29%	6%	8%	100%
No	54%	30%	7%	9%	100%
NA	59%	30%	2%	9%	100%
Total	55%	30%	6%	9%	100%

Source: Pew Hispanic Center Survey of Remittance Receivers in Mexico, 2005

As the attention of policy makers has focused increasingly on the potential of remittances as a tool for economic development, the analysis of remittance receipts has gone beyond income distribution to examine asset or wealth creation by receiving households. (Terry et al, 2005; World Bank, 2006)

Previous surveys of remittance receivers in Latin America have shown that very large shares of remittance receipts go to everyday expenses, (Suro, 2004, Orozco et al, 2005). The

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most recent survey data on Mexico explores this matter with two questions related to the use of remittance receipts: The first asked respondents who were remittance receivers, *Si el día de hoy recibiera dinero de Estados Unidos, ¿para qué lo usaría?* (If you received money from the US today, how would you use it?) N=4997.

The second asked: *En el transcurso del último año, ¿usted directamente o los miembros de este hogar ha o han... Realizado una construcción o reparación mayor en su hogar; Comprado un electrodoméstico grande; Abierto un negocio; Comprado una casa; Comprado un terreno; Comprado equipo o maquinaria para un negocio; Abierto una cuenta bancaria o de ahorros; Obtenido una tarjeta de crédito?* (In the past year, have you or someone in your household...completed a major home repair; bought a electronics/major appliance; opened a business; bought a house; bought property; brought equipment/machinery for a business; opened a bank/savings account; obtained a credit card?) n=6694

Responses to the first question showed that low and middle income families were equally likely to spend the money on food and other everyday expenses and that both were more likely to do than high income families.

Table 3: Spending Remittances Received by Monthly Family Income

Monthly Family Income	If you received money from the US today, how would you use it?			
	Food/Supplies	Family Expenses	Pay Debts	House Repairs
High	29.8%	14.4%	7.1%	4.6%
Med	22.8%	13.0%	8.8%	7.3%
Low	9.9%	9.6%	5.2%	12.8%

Source: Pew Hispanic Center Survey of Remittance Receivers in Mexico, 2005

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The second question showed that receivers are more likely to engage in some potentially asset-creating activities such as doing construction or repairs on their homes but not others such as opening a business, buying land, property or equipment or opening a bank account. Receivers are more likely to buy a major appliance which may improve the household's quality of life but is not likely to produce long term economic gains.

Table 4: Purchases by Remittance Receivers and Non-Receivers

	Receivers	Non Receivers
Household major repairs	29%	16%
Electronics/Major Appliances	31%	22%
Opening a business	8%	6%
Buying a house	2%	2%
Buying property	6%	4%
Buying machinery for business	6%	4%
Opening a bank/savings account	14%	8%
Opening a credit card account	9%	8%

Source: Pew Hispanic Center Survey of Remittance Receivers in Mexico, 2005

Tabulating these responses according to the respondents' reported monthly family income suggests three findings: 1) The extent to which receivers engage in potentially asset-building activities increases with income. 2) Across income levels some activities that produce an immediate benefit to the household such as home construction/repair or the purchase of a major appliance are reported more often than long term investments such as

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opening a business or buying a home. 3) The differences between receivers and non-receivers in the extent of these are fairly consistent across income categories.

Table 5: Purchases by Remittances Receivers and Non-Receiver by Monthly Family Income

	Low		Med		High	
	Non Receivers	Receivers	Non Receivers	Receivers	Non Receivers	Receivers
Household major repairs	13%	24%	19%	36%	22%	46%
Electronics/Major						
Appliances	18%	23%	27%	44%	42%	59%
Opening a business	5%	7%	6%	10%	14%	15%
Buying a house	1%	1%	3%	2%	7%	6%
Buying property	3%	5%	4%	9%	10%	11%
Buying machinery for business	2%	4%	5%	9%	12%	13%
Opening a bank/savings account	5%	9%	11%	18%	25%	42%
Opening a credit card account	4%	5%	10%	12%	27%	40%

Source: Pew Hispanic Center Survey of Remittance Receivers in Mexico, 2005

These findings suggest that while remittances may reduce income inequality when measured simply in terms of regular income, the effects are much more muted in terms of activities that could potentially help a household build its assets over the long term. Remittances are more likely to be destined to low income families but those families are more likely to use the funds for basic living expenses. Meanwhile, remittance receivers in middle and high income families are more likely to engage in potentially asset-building



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activities like doing construction or repairs on their homes or making investments in quality of life such as buying a major appliance.

## 2) Remittance sending and changes in the life of the migrant

The argument that remittance sending drops off as migrants become more settled in their countries of destination has become a staple of both in the research literature and the policy discussion. (DeSipio, 2000, Orozco, 2005, Cortina et al., 2005, Maimbo and Ratha (2005) A variety of mechanisms are identified as the likely causes of remittance decay: acculturation and assimilation produces greater investment in communities of destination, family reunification that brings senders and receivers together, or alternatively the of weakening kinship ties, and the eventual loss of the intent to return to the community of origin.

Summarizing these arguments, Orozco states, “Over time, migrants become more inwardly focused, spending more time, energy, and resources on their lives in their host countries. Furthermore, migrant families may reunite, either in the source country or the host country, thereby eliminating the need to transfer remittances.”

The process of remittance decay is typically portrayed as being neither linear nor absolute. As Maimbo and Ratha put it, while the propensity to remit “may decline over time, it rarely vanishes.” They note that even when a migrant’s frequency of remittance sending declines over time the amounts sent often increase.

As Cortina, et. al. (2005) argue, understanding the extent and speed of remittance decay is essential to governments in remittance receiving countries and to international institutions that seek to maximize the impact of remittances on economic development.

Surveys conducted among foreign-born Hispanics in the U.S., and among Mexican migrants in particular, show that recently-arrived migrants are more likely to remit than those of long tenure but that large shares of those who have been in the United States are sending money home nonetheless. The survey data suggests that remittance decay is a notable but limited phenomenon, and that in recent years at least, long-term migrants are highly likely to be

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remittance senders. Indeed, the extent of remittance sending by migrants of long tenure may be a more significant phenomenon than decay.

This is illustrated in the results of a telephone survey conducted with a nationally representative sample of 987 Mexican-born adults living in the United States from January 16 to February 10, 2006. As with previous surveys, this poll showed high levels of remittance sending overall (58% said they had sent money to someone in Mexico over the past year) and only modest declines among respondents with many years in the country. No significant differences were apparent in the responses of Mexicans with less than five years in the country and those with ten to fifteen on whether or not they were senders.

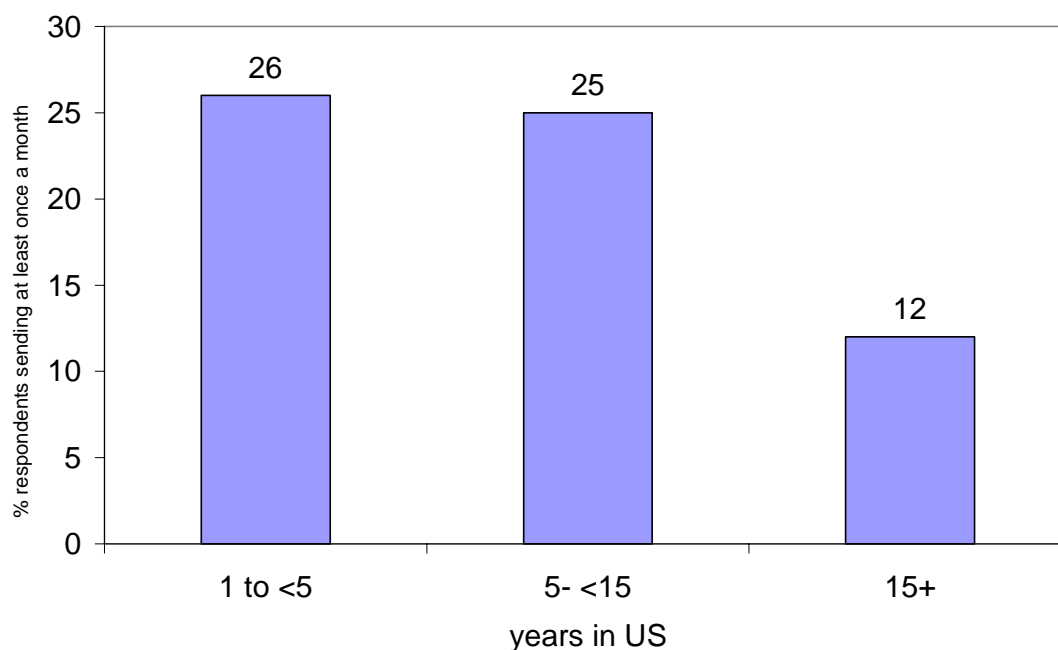
Differences did emerge in terms of the frequency of sending. Recently arrived immigrants are more likely to be what we categorize as “frequent senders” because they report sending remittances at least once a month. The share of respondents who are frequent senders declines along a time gradient measuring their tenure as migrants.

In sum, this one small survey, suggests that if decay does take place, its impact is primarily on the pace of remittance sending. Long-term immigrants today report that they engage in remittance sending in almost equal shares as the recent arrivals but smaller shares report sending frequently. Even so it is notable that sizeable numbers of Mexicans who have lived in the U.S. for a decade or more send money home and send it regularly, a finding which seems to diminish the potential significance of the decay phenomenon in determining long term flows.

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Figure 1: Frequent Senders by Time in Country



Source: Pew Hispanic Center Survey of Mexicans Living in the U.S. on Absentee Voting in Mexican Elections, February, 2006

These same relationships between the pace of remittance sending are evident in other data that permits an assessment of other possible factors in the decay phenomenon.

The Pew Hispanic Center's Survey of Mexican Migrants provides detailed information on the demographic characteristics, living arrangements, work experiences and attitudes toward immigration of 4,836 Mexican adults who completed a 12-page questionnaire as they were applying for a *matrícula consular*, an identity document issued by Mexican diplomatic missions. Fieldwork was conducted in Los Angeles, New York, Chicago, Atlanta, Dallas, Raleigh, NC, and Fresno, CA, from July 12, 2004, to Jan. 28, 2005.

The Survey of Mexican Migrants shows that remittance sending is a broad phenomenon among Mexican migrants though most common among males, those with immediate family ties in Mexico and those in the middle income ranges for this population.

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More than three-quarters (78%) of survey respondents said they send remittances and more than half (52%) said they did so frequently—at least once a month. Sending money back to Mexico is an activity shared by a majority of migrants across every socio-economic geographic and demographic category.

While remittance sending is a broad, nearly universal activity in the migrant population, the propensity to remit is higher among some subsets of that population. The most notable distinction is by gender with men outpacing women. Greater shares of male respondents said they sent money to Mexico (87% vs. 66%) and said they sent frequently (71% vs. 56%). This reflects higher rates of employment among males and migration settlement patterns in which a greater share of males are in the United States while their spouses remain in Mexico. Among men who are married, 25% left their spouses behind in Mexico compared to only 2% of married females.

At a very basic level remittances are an expression of family ties that remain strong even after migration. Almost all (95%) married migrants (formally or by common law) whose spouses are in Mexico send money home, and among them almost all (91%) remit at least once a month. The prevalence of sending is just as high for Mexican migrants who are parents and whose children live in Mexico.

A larger share of individuals who own land, a home or a business in Mexico send money back than those that do not (88% vs. 77%) and these property or business owners are somewhat more likely to be frequent senders (69% vs. 61%)

Age, education and income, which are often important variables in other forms of economic activity, are not important factors in the propensity to remit. There is no statistically significant difference in the propensity to remit funds by age except for a drop off among those who are age 55 or older. The share of remittance senders is somewhat higher among migrants who have a secondary education than those who either stopped their education in primary school or went on to college. Similarly, sending is most prevalent among migrants in the middle income ranges for this population (earnings of \$200 to \$400 a week) rather than at the high or low ends.

Whether individuals were employed full time or part time and whether or not they had

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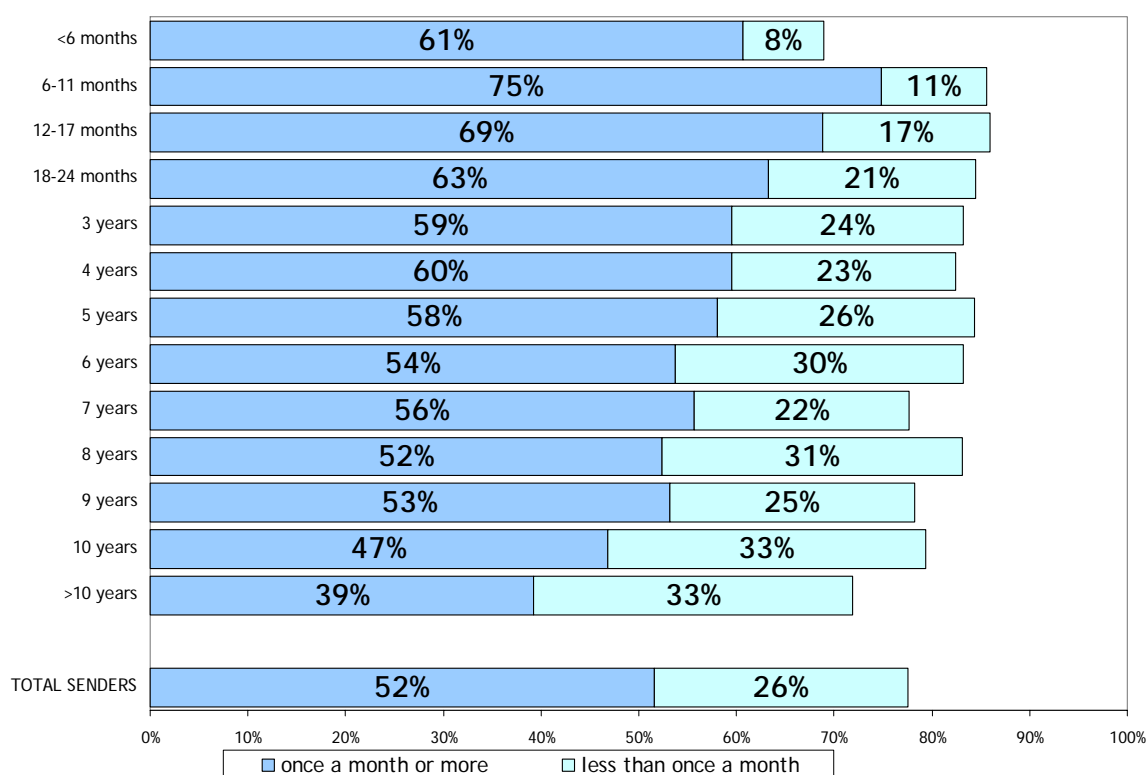
recently undergone periods of unemployment produced no statistically significant differences in the propensity to remit. Similarly, the proportion of remittance senders did not vary significantly by the kind of industry in which respondents were employed. Finally, just as many migrants who said they had no forms of photo identification issued by a government agency in the United States send money home as among those who say they do have US documents.

The amount of time a migrant has spent in the United States, on the other hand, is a very significant factor. The incidence of remittance sending is highest among migrants who have been in the United States for just a few years, but even a majority of long term migrants send money home.

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Figure 2: Remittance Sending by Time in the U.S.



Source: Pew Hispanic Center Survey of Mexican Migrants, December 2005

Mexican migrants start sending money home almost as soon as they arrive in the United States, and although they remit less frequently, large shares of migrants who have been here for many years also dispatch money to Mexico.

The Survey of Mexican Migrants permits an examination of recently arrived Mexican migrants in considerable detail because of the construction of the sample which included 854

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respondents who had been in the United States for two years or less, including 254 who had been in the country for six months or less. Among those in the United States for half a year or less, a full 70% said they were sending money to Mexico. Beyond the six month mark the share of remitters rose to 87% and held steady there for respondents with two years or less in the country. Among those who have been in the United States between 6 and 24 months, 70% sent money home at least once a month.

Respondents who had been in the United States for longer than two years reported lower rates of remittance sending and in particular of frequent sending. The share sending at least once a month drops below 60% among those in the country for at least four years and below 50% for those in the country ten years or more. The decline in sending along the time gradient is fairly steady and consistent beyond the most recent arrivals. Given that there is little or no significant difference in the propensity to remit for several other variables cited above, the amount of time a respondent has been in the United States seems a noteworthy determinant of the propensity to remit.

The survey data, however, shows that although the share of long-term migrants sending money home is smaller than among recent arrivals, it is still quite substantial. The sample includes 1,280 respondents who have been in the United States for 15 years or more and three quarters of them (74%) said that they send money to Mexico, including a substantial share (42%) who said they send money frequently. Clearly, remittance sending remains a widespread activity even among migrants who have already been in the country for an extensive amount of time.

Two other variables further illuminate the relationship between remittance sending and the amount of time migrants spend in the United States: English-language ability and stated intentions about the amount of time they intend to stay. The prevalence of remittance sending is highest among migrants who self-report their English-ability as none or a little and is lowest among those who say they speak it a lot.

Remittance sending is also higher among those who define their intentions to stay with a fixed number of years and is lowest among those who say they intend to stay for the rest of their lives.

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But, even among those who plan to stay in the United States permanently, two-thirds send money to Mexico.

One of the major weaknesses of the decay hypothesis is that it is generally based on individual one-time surveys rather than longitudinal studies (DeSipio, 2000). As a result they produce snapshot views of the migrant population and do not provide either a view of past behavior or necessarily a basis for predicting the future. Thus, the fact that the recently arrived send more consistently than long-term migrants does not necessarily mean that those now new to the country will become less loyal remitters five or ten years from now. Similarly, there is no way of knowing whether today's long term migrants were more active senders a decade ago when they were recently arrived. Decay is necessarily a process that evolves over time. The available evidence does not allow for a clear assessment of the decay phenomenon as an influence on future immigration flows. Indeed, it is difficult to know how much of a factor it has been in shaping current flows. Indeed, one could construct an anti-decay hypothesis from the available data, arguing that that long-term migrants today are actually sending more now that they did when they first arrived, though still less than the most recent arrivals. Under this hypothesis changes in the culture of migration, in the composition of the migrant stream and in the marketplace for remittance transfer services might be of equal or greater weight that changes in remittance sending behavior over a migrant's life cycle.



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