

Remittances are a Political
Blessing and not a Curse

by

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International Economic Flows as a Political Curse

- First oil
- Then aid
- Now remittances
 - Public goods substitution effect: Since citizens can spend more on their education and health via remittances, autocratic governments **divert public goods** spending towards **private goods** (Abdih et al 2012; Ahmed 2012 & 2013, Berdiev, Kim, and Chang 2013)

Part I: Remittance Curse Argument – Testing the Substitution Effect

Hypotheses

- In less democratic states, net remittance inflows should be **negatively** correlated with government spending on **education and health**.
- In less democratic states, net remittance inflows should be **positively** correlated with government spending on the **military**.

$$\begin{aligned} \text{Education/Health/Military Spending}_{it} &= B_0 + B_1 \text{Education/Health/Military} \\ &\quad \text{Spending}_{it-1} + \\ &\quad B_2 \text{Remittances}_{it-1} + \\ &\quad B_3 (\text{Remittances} * \text{Democracy})_{it-1} + \\ &\quad B_4 \text{Democracy}_{it-1} + B_x \text{Controls}_{it-1} + e \end{aligned}$$

Part I: Remittance Curse Argument – Little Empirical Support

Table 1 Models of Government Spending

A. Using Polity

DV:	<i>Education Spending</i>	<i>Health Spending</i>	<i>Military Spending</i>
<i>Remittances</i>	-0.026* (0.013)	-0.006 (0.009)	0.016 (0.014)
<i>Remittances * Polity</i>	0.003 (0.002)	0.0003 (0.0006)	-0.001 (0.001)
<i>N</i>	1646	2127	2587
<i>R</i> ²	0.877	0.929	0.849

B. Using DD (Democracy – Dictatorship)

DV:	<i>Education Spending</i>	<i>Health Spending</i>	<i>Military Spending</i>
<i>Remittances</i>	0.005 (0.016)	-0.007 (0.006)	-0.012 (0.011)
<i>Remittances * DD</i>	0.001 (0.018)	0.013* (0.008)	0.021 (0.015)
<i>N</i>	1587	1981	2239
<i>R</i> ²	0.858	0.878	0.853

1) Fixed effects and controls included, but not reported. 2) All IVs lagged one year. 3) OLS coefficients with robust standard errors clustered on the country. 4) Statistical significance: *** p<0.01, ** p<0.05, * p<0.1 (two tailed).

Part I: Remittance Curse Argument – Why No Substitution Effect?

- Remittances increase national income

Table 2 Models of Economic Development / Growth

DV:	<i>GDPpchl</i>	<i>Growth</i>	<i>HDI</i>
<i>LDV</i>	0.973*** (0.004)	0.202*** (0.035)	0.994*** (0.004)
<i>Remittances</i>	0.0019*** (0.0004)	0.151*** (0.037)	0.00008* (0.00004)
<i>N</i>	4352	4342	3373
<i>R</i> ²	0.999	0.055	0.999

1) Fixed effects and controls included, but not reported. 2) All IVs lagged one year. 3) OLS coefficients with robust standard errors clustered on the country. 4) Statistical significance: *** p<0.01, ** p<0.05, * p<0.1 (two tailed).

- Richer and more developed countries demand greater public goods and service (Wagner's law)
- The income effect offsets the proposed substitution effect

Part II: Remittance Blessing Argument – Work through Economic Modernization Theory

- Richer citizens **demand** more democracy (Lipset 1959)
- State can **supply** more democracy as citizens get richer (Boix 2003)
- Economic modernization can positively influence democracy through demand and/or supply effects

Part II: Remittance Blessing Argument – Supportive Evidence

Hypothesis: Net remittance inflows should be **positively** associated with democratization.

Table 3 Democracy Models

Economic Development Reverse Causality

DV:	<i>Polity</i>	<i>DD</i>	<i>Polity</i>	<i>DD</i>	<i>Remittances</i>	<i>Remittances</i>
<i>Remittances</i>	0.034*** (0.011)	0.149** (0.065)	0.016 (0.012)	0.035 (0.122)		
<i>Polity</i>					0.008 (0.006)	
<i>DD</i>						0.185 (0.122)
<i>GDPpchl</i>			-0.713** (0.274)	-9.095*** (2.672)		
<i>Growth</i>			-0.002 (0.006)	0.020 (0.043)		
<i>HDI</i>			4.595*** (1.531)	39.758*** (12.717)		
<i>N</i>	3805	1108	3105	817	3746	3724
<i>R2 (Pseudo)</i>	0.944	0.706	0.937	0.745	0.950	0.936

1) Fixed effects and controls included, but not reported. 2) All IVs lagged one year 3) OLS (logit) coefficients with robust standard errors clustered on the country. 4) Statistical significance: *** p<0.01, ** p<0.05, * p<0.1 (two tailed).

Part II: Remittance Blessing Argument – Conclusion

- Remittances do not hurt democracy per the substitution effect.
- Remittances do help democracy per their income effect.

More Findings & Diagram

Part I: Remittance Curse Argument – Little Empirical Support

Table 1-1 Models of Government Spending with **One Year Lag**

A. Using *Polity*

DV:	<i>Education Spending</i>	<i>Health Spending</i>	<i>Military Spending</i>
<i>Remittances</i>	-0.026* (0.013)	-0.006 (0.009)	0.016 (0.014)
<i>Remittances * Polity</i>	0.003 (0.002)	0.0003 (0.0006)	-0.001 (0.001)
<i>N</i>	1646	2127	2587
<i>R</i> ²	0.877	0.929	0.849

B. Using *DD* (Democracy – Dictatorship)

DV:	<i>Education Spending</i>	<i>Health Spending</i>	<i>Military Spending</i>
<i>Remittances</i>	0.005 (0.016)	-0.007 (0.006)	-0.012 (0.011)
<i>Remittances * DD</i>	0.001 (0.018)	0.013* (0.008)	0.021 (0.015)
<i>N</i>	1587	1981	2239
<i>R</i> ²	0.858	0.878	0.853

1) Fixed effects and controls included, but not reported. 2) OLS coefficients with robust standard errors clustered on the country. 3) Statistical significance: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$ (two tailed).

Part I: Remittance Curse Argument – Little Empirical Support

Table 1-2 Models of Government Spending with **Five Year Lag**

A. Using *Polity*

DV:	<i>Education Spending</i>	<i>Health Spending</i>	<i>Military Spending</i>
<i>Remittances</i>	0.019 (0.043)	-0.005 (0.034)	0.024 (0.026)
<i>Remittances * Polity</i>	-0.0001 (0.0028)	0.003 (0.002)	-0.001 (0.001)
<i>N</i>	1216	1623	2095
<i>R</i>	0.391	0.590	0.138

B. Using *DD* (Democracy – Dictatorship)

DV:	<i>Education Spending</i>	<i>Health Spending</i>	<i>Military Spending</i>
<i>Remittances</i>	0.002 (0.035)	0.020 (0.013)	0.002 (0.014)
<i>Remittances * DD</i>	0.013 (0.041)	0.019 (0.019)	0.018 (0.017)
<i>N</i>	1300	1835	2169
<i>R</i>	0.336	0.556	0.138

1) Fixed effects and controls included, but not reported. 2) OLS coefficients with robust standard errors clustered on the country. 3) Statistical significance: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$ (two tailed).

Part I: Remittance Curse Argument – Why No Substitution Effect?

Table 2 Models of Economic Development / Growth

DV:	<i>GDPpcln</i>	<i>Growth</i>	<i>HDI</i>
<i>LDV</i>	0.973*** (0.004)	0.202*** (0.035)	0.994*** (0.004)
<i>Remittances</i>	0.0019*** (0.0004)	0.151*** (0.037)	0.00008* (0.00004)
<i>Oil</i>	0.0012*** (0.0004)	0.090*** (0.034)	0.00008** (0.00004)
<i>Aid</i>	0.0011*** (0.0004)	0.132*** (0.045)	0.00008** (0.00003)
<i>N</i>	4352	4342	3373
<i>R</i> ²	0.999	0.055	0.999

With One Year Lag

DV:	<i>GDPpcln</i>	<i>Growth</i>	<i>HDI</i>
<i>LDV</i>	0.824*** (0.022)	-0.068*** (0.024)	0.962*** (0.017)
<i>Remittances</i>	0.008*** (0.002)	0.117*** (0.039)	0.0005** (0.0002)
<i>Oil</i>	0.0001 (0.0010)	-0.055 (0.044)	0.0002 (0.0002)
<i>Aid</i>	0.003*** (0.001)	0.050** (0.024)	0.0003 (0.0002)
<i>N</i>	3769	3759	2827
<i>R</i> ²	0.991	0.001	0.993

With Five Year Lag

1) Fixed effects and controls included, but not reported. 2) OLS coefficients with robust standard errors clustered on the country. 3) Statistical significance: *** p<0.01, ** p<0.05, * p<0.1 (two tailed).

Part II: Remittance Blessing Argument – Supportive Evidence

Table 3 Democracy Models with One Year Lag

Economic Development Reverse Causality

DV:	<i>Polity</i>	<i>DD</i>	<i>Polity</i>	<i>DD</i>	<i>Remittances</i>	<i>Remittances</i>
<i>Remittances</i>	0.034*** (0.011)	0.149** (0.065)	0.016 (0.012)	0.035 (0.122)		
<i>Polity</i>					0.008 (0.006)	
<i>DD</i>						0.185 (0.122)
<i>GDPpchl</i>			-0.713** (0.274)	-9.095*** (2.672)		
<i>Growth</i>			-0.002 (0.006)	0.020 (0.043)		
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<i>N</i>	3805	1108	3105	817	3746	3724
<i>R2 (Pseudo)</i>	0.944	0.706	0.937	0.745	0.950	0.936

1) Fixed effects and controls included, but not reported. 2) OLS (logit) coefficients with robust standard errors clustered on the country. 3) Statistical significance: *** p<0.01, ** p<0.05, * p<0.1 (two tailed).

Part II: Remittance Blessing Argument – Supportive Evidence

Table 4 Democracy Models with Five Year Lag

	Full Sample		<u>No Party Dictatorships</u> <u>Remittances ≥ 0</u>			
DV:	<i>Polity</i>	<i>DD</i>	<i>Polity</i>	<i>DD</i>	<i>Polity</i>	<i>DD</i>
<i>LDV</i>	0.413*** (0.043)	1.628*** (0.389)	0.347*** (0.045)	1.457*** (0.394)	0.404*** (0.049)	1.999*** (0.489)
<i>Remittances</i>	0.094* (0.050)	0.532*** (0.159)	0.109** (0.045)	0.443*** (0.148)	0.085** (0.042)	0.417*** (0.142)
<i>Oil</i>	-0.074*** (0.026)	-0.130** (0.058)	-0.079*** (0.027)	-0.127** (0.059)	-0.055 (0.035)	-0.118*** (0.043)
<i>Aid</i>	0.085** (0.034)	0.237*** (0.071)	0.064** (0.030)	0.252*** (0.086)	0.041 (0.034)	0.257** (0.103)
<i>Exports</i>	0.033* (0.017)	0.046 (0.028)	0.042** (0.019)	0.051* (0.030)	0.032 (0.020)	0.035 (0.050)
<i>GDP</i>	0.0001 (0.0001)	0.032 (0.020)	0.0001 (0.0001)	0.028 (0.022)	0.0005 (0.0006)	0.023 (0.014)
<i>N</i>	3319	883	2907	764	2104	542
<i>R² (Pseudo)</i>	0.714	0.444	0.711	0.414	0.721	0.423

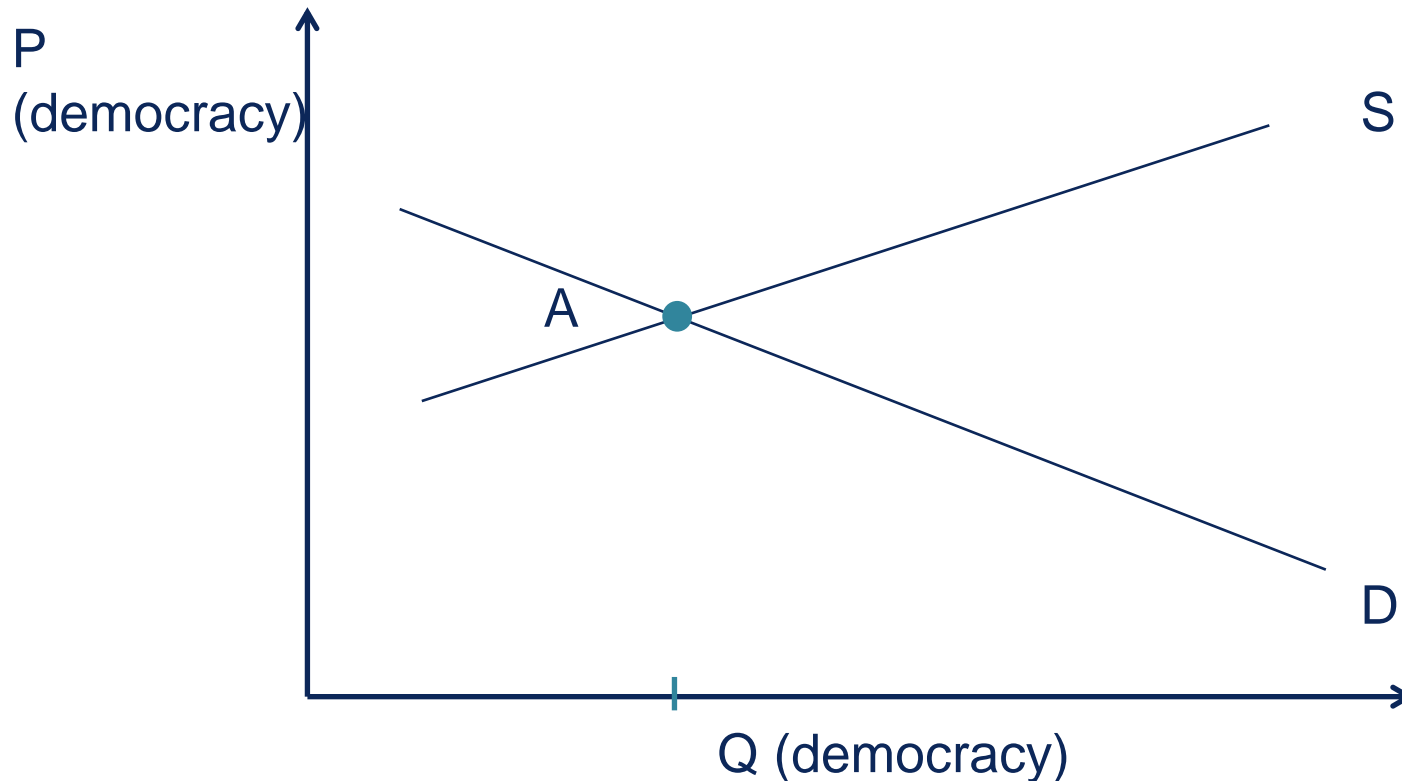
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Part II: Remittance Blessing Argument – Work through Economic Modernization Theory

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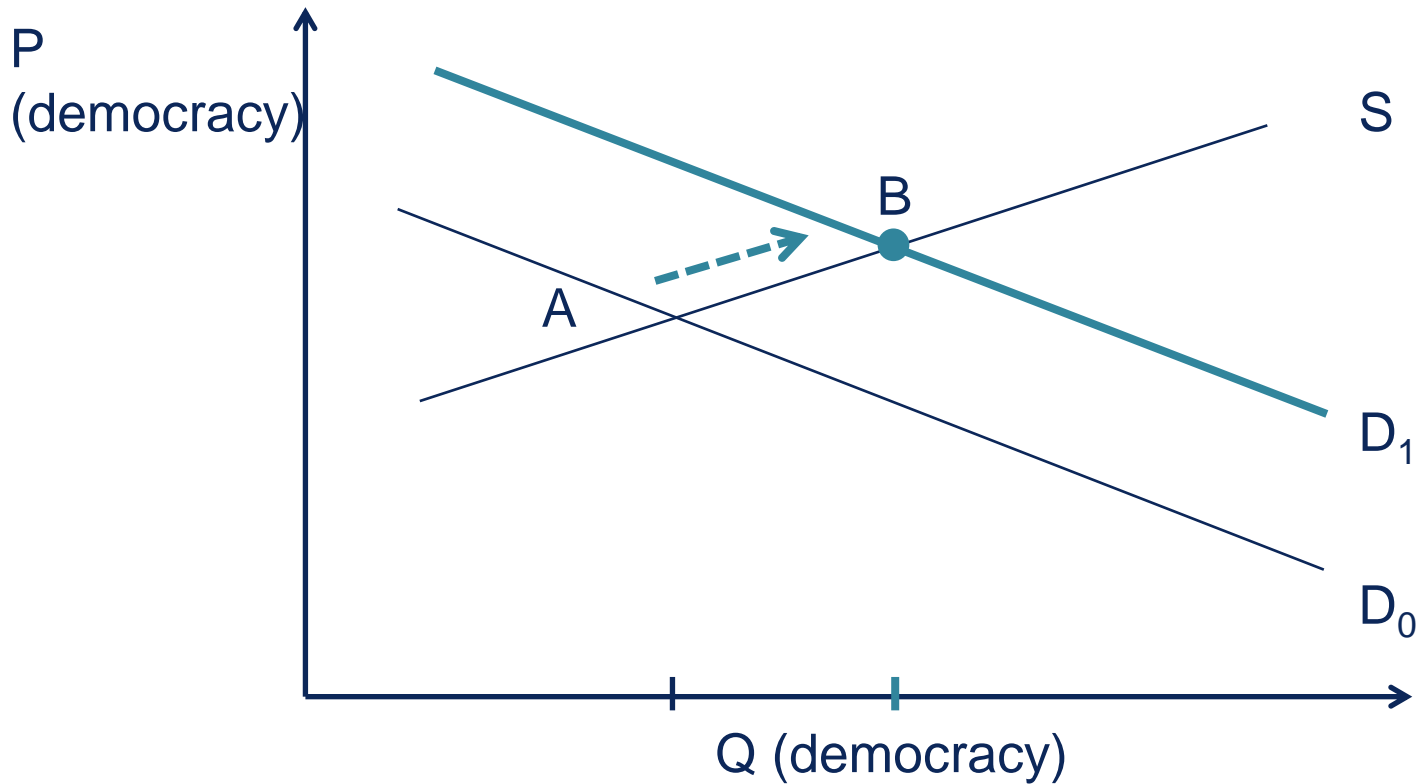
- Autocratic regime with 3 classes, the elite, middle, and low classes

Figure 1: The Supply and Demand for Democracy (**without** Remittances)



Part II: Remittance Blessing Argument – Work through Economic Modernization Theory

Figure 2: Increased **Demand** for Democracy (**with** Remittances)



Part II: Remittance Blessing Argument – Work through Economic Modernization Theory

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1

Figure 3: Increased **Supply** of Democracy (**with** Remittances)

