

Remittances

a Massive Transfer of Wealth

BY FRED ELBEL

On July 22, 2004, Colorado-based First Data Corporation hosted a fourth national public “immigration reform” forum at North High School in a predominantly Hispanic Denver neighborhood.¹ The school recently had been the focus of a national controversy as a consequence of displaying the Mexican flag in its classrooms.

In the audience, an American woman whose lineage dated back to the Pilgrims was brutally beaten by a woman who proclaimed in a Spanish accent, “You should leave! This is for *us*.” Mike McGarry, of Colorado Alliance for Immigration Reform, was told to “Go back to Ireland.” Nevertheless, after vociferously complaining about the forum’s obvious anti-immigration enforcement bias, he was given an impromptu seat on the panel. Not that it changed First Data’s business model.

The forums were not much more than targeted marketing events to promote wire transfers to immigrants and in particular to the illegal alien community. First Data Corporation, one of the world’s largest providers of money transfer services, reported that its second-quarter 2004 profit rose 32 percent as a direct result of revenue from Western Union, its money-transfer agency.² This profit amounted to \$1.1 billion in 2004 — from money transfers alone.

In the booming funds transfer industry, the number of Western Union agents world-wide grew from 30,000 in 1995 to 219,000 in 2004.³ Such phenomenal growth was worth fighting to protect. Indeed, in a vindictive political attempt to preserve their immense revenue stream, First Data subsequently formed a political action committee to oppose immigration reform candidate Tom Tancredo, who had reasonably suggested that remittances be taxed.⁴

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What are remittances?

Remittances are payments sent by foreign-born workers (legal immigrants and illegal aliens) back to their home country. The transfers are facilitated by sending money through banks, making investments in the home country, or by returning to the home country while retaining bank accounts or other assets in the United States.

Remittances represent a staggering transfer of wealth world wide. The International Monetary Fund (IMF) estimated total global flows of remittances — including compensation, personal transfers, and capital transfers — to be approximately \$407 billion in 2008. This represented an increase of about \$250 billion since 2002.⁵

The Bureau of Economic Analysis (BEA) estimated that 2009 migrants’ remittances from the U.S. were approximately \$48 billion, or approximately 70 percent more than total official development assistance provided by the United States. Of that amount, \$38 billion consisted of personal transfers abroad. The remaining \$11 billion consisted of wages paid to workers in the U.S., although some of those wages obviously were spent in the U.S.⁶

The BEA estimated that countries in the Western Hemisphere received two-thirds of remittances in 2003, and Asia and the Pacific received one-quarter, while the remaining amount went to Europe and Africa. Unfortunately, the BEA did not report remittance data for specific countries; only “net private remittances” (outflows minus inflows) were reported. However, BEA did estimate that in 2009, approximately \$20 billion in remittances was sent from the United States to Mexico. These remittances grew by 3 percent per year in inflation-adjusted 2009 dollars (see Table 1).⁵

Remittances are sensitive to economic fluctuations. From 1995 to 2003, the official count of Mexicans living in the United States increased by 56 percent and the median wage increased by 10 percent. Yet total remittances increased dramatically by 199 percent during those positive economic times.⁸

Remittances to Mexico peaked at \$26 billion in 2007, then declined during the subsequent recession. Even so, Mexican workers living in the United States did not return home in large numbers.⁹ One might conclude that a weakened economy in the U.S. still offered better wages than the Mexican economy.

tance business continued to strengthen through 2011, with Western Union stock prices consequently moving up more than 13 percent in the fourth quarter of 2011. The Bank of Mexico reported received \$1.77 billion in remittances in November 2011, an increase of 8.9 percent over November 2010.¹⁰

Table 1. Migrants' Private Remittances from the United States in 2009 Dollars (Billions of Dollars)

	1990	1995	2000	2005	2006	2007	2008	2009	Average Annual Percentage Change 2000-2009
Personal transfers by foreign-born population	12.7	21.4	28.9	34.3	36.4	38.1	38.9	37.6	3%
Employee compensation	5.3	8.4	9.3	10.2	10.1	10.4	10.5	10.8	2%
Total	18.0	29.8	38.2	44.5	46.5	48.4	49.3	48.4	3%

Adjusted for inflation, migrants' private remittances grew at an average of 3 percent per year.⁷

Currency exchange rates also affect transactions. As the peso declined in September 2011, Mexican remittances rose at the fastest rate in five years.¹¹

A broader picture of remittances includes migrants' personal transfers (discussed above), institutional remittances by U.S. nonprofits, and other transactions. Net outflows (total outflows minus inflows) totaled \$82 billion in 2009, as shown in Table 2. In addition to net private remittances, migrants' capital transfers totaled nearly \$3 billion in 2009.

Western Union reported that its Mexico revenue declined 15 percent through the recession in 2009 to \$306 million, then began to increase in 2010. Remit-

Who makes remittances?

A 2007 survey by the Banco de Mexico found that one-fifth of migrants who sent remittances home worked in the U.S. construction sector.⁹ The amount of migrants' remittances has increased by 3 percent per year since 2000 (see Table 1). The increase has been facilitated by increased ease of low-cost money transfers, coupled with a corresponding increase in the number of foreign-born workers in the U.S., as shown in Table 3.

Although the Census Bureau estimated 23.9 million foreign-born workers in the U.S. in 2009, it should be noted that many believe Census Bureau numbers to be low, since

Table 2. Net Private Remittances and Related Flows from the U.S. (\$ Billions)

	1990	1995	2000	2005	2006	2007	2008	2009	Average Annual Percentage Change 2000-2009
Net private remittances and other transfers	13.1	23.4	37.2	65.8	57.2	73.8	77.6	74.4	8%
Short-term migrant compensation	2.3	4.1	4.7	6.4	6.6	7.1	7.3	7.8	6%
Total in actual dollars	15.4	27.5	41.9	72.2	63.8	80.9	85.0	82.2	8%
Total in 2009 dollars	23.3	37.0	51.8	79.2	67.8	83.4	85.8	82.2	5%
Migrant's capital transfers	n.a.	n.a.	1.0	1.8	2.1	2.3	2.6	2.7	12%

These data include net private migrants' remittances, other transfers, and short-term migrant compensation. Adjusted for inflation, net private remittances grew at an average of 5 percent per year. Migrants' capital transfers grew at an average of 12 percent per year.¹²

for years the Bureau reported the number of illegal aliens in the United States to be an unvarying 8-12 million. *The Social Contract* addressed this issue in its Summer, 2007 issue, “How many illegal aliens are in the U.S.?” In that issue, a number of authors presented convincing evidence that the number of illegal aliens in the United States may be closer to 30-40 million.¹³

nesses, and chain stores (convenience stores, groceries, department stores). Home town associations, known as *clubes des oriundos*, facilitate collective transfers, and also maintain social ties between U.S. workers and communities in their home country.¹⁵

In 1996, approximately 14 million remittances were sent to Mexico, averaging \$320 each. In 2000, approximately 17 million remittances were sent, averaging \$365 each. By 2003, the number had jumped to approximately 40 million remittances at an average of \$321 each. In 2010, the amount of the average remittance remained about the same at \$302.¹⁶

In 2004, small money transfer operators had a 60 percent market share while Western Union had a modest 15 percent market share.¹⁷ However, at that time, the mechanism for transferring remittances from the U.S. to Mexico was undergoing a massive shift from a largely informal industry to institutional electronic transfers.¹⁸ In 1994, money orders comprised over 46 percent of the value of all reported transfers. By 2003, the share of money orders decreased to 12 percent and 86 percent of

Table 3. Census Bureau Foreign-Born Workers in the U.S. (\$ Millions)

	1990	1995	2000	2005	2006	2007	2008	2009	Average Annual Percentage Change 2000-2009
Foreign-born workers in the U.S.	n.a	12.9	18.9	22.0	23.1	24.0	24.1	23.9	3%

The number of foreign-born workers grew at an average of 3 percent per year.¹²

Clearly, the number of illegal foreign workers in the U.S. is substantial and has been growing, as has the corresponding amount of funds sent back to home countries.

Table 4 shows characteristics of those making remittances to Mexico, based on surveys of migrants from four Latin American countries. Interestingly, both legal residents and illegal aliens showed significant

Table 4. Percentage of Foreign-Born Workers Making Remittances to Mexico, 1999-2004

	Status		Education		Arrival Decade		Use of Remittances			
	Legal Resident	Illegal Alien	Up to 15 Years	Over 15 Years	1990s	2000s	Consumption	Asset Accumulation	Both	Not Specified
Percentage of Workers	73%	83%	80%	56%	83%	92%	70%	3%	26%	1%

Source: Congressional Budget Office based on data from the Latin American Migration Project and the Mexican Migration Project¹⁴

propensity to send money home, with 73 percent and 83 percent of each group making remittances, respectively. Those with higher education made fewer remittances. As might be expected, those who arrived during the most recent decade were inclined to make more remittances than those who have lived here for more than one decade. Time loosens the social bond with the home country, and declining personal remittances are one aspect of that diminishing bond.

How remittances are sent

U.S. remittance agents include banks, credit unions, post offices, money transfer operators, individual busi-

nesses were being made electronically.¹⁹ This was a tremendous opportunity for companies such as First Data/Western Union to compete for market share and profit potential.

This transition was facilitated by:

- Increasing accessibility of formal channels;
- Banks became independently competitive in the funds transfer market;
- Growing financial awareness among migrants;
- Improving market information (e.g., financial marketing);
- Bilateral initiatives by the U.S. and Mexican governments and their monetary authorities.²⁰

Financial institution requirements tightened after 2001; new regulations required banks to “know their customers.” This resulted in a massive push in the early 2000s by the Mexican government to issue millions of *Matricula Consular de Alta Seguridad* identification cards, which practically by definition declared the holder to be an illegal alien in the U.S. Although accepted in

representing an average annual percentage decrease of 5.5 percent.

As shown in Table 2, net private remittances (which include migrants’ remittances, other transfers, and short-term migrant compensation) amounted to \$82.2 billion in 2009, and grew at an average of 5 percent per year from 2000–2009. Table 5 shows that the

total sent to Latin America, Canada, and other Western Hemisphere countries amounted to \$32.9 billion in 2009, and grew at about 3 percent per year. Net private remittances to Asia and the Pacific and to Europe were \$16.9 and \$9.2 billion respectively, but grew faster-by 10 percent and 32

Table 5. Net Private Remittances and Related Flows from the United States to Global Regions (Billions of Dollars)

	Latin America, Canada, Western Hemisphere	Asia and Pacific	Europe	Africa	Middle East	Payments to International Organizations and Unallocated Payments	Total (2009 dollars)
Net private remittances	32.9	16.9	9.2	5.0	1.9	16.2	82.2
Average annual change, 2000-2009	3%	10%	32%	14%	-4%	15%	5%

Source: Congressional Budget Office based on Bureau of Economic Analysis data.²³

32 U.S. states in 2005, no major Mexican bank accepted the card to open an account, and the cards were accepted as IDs in only 10 of Mexico’s 32 states and districts.²¹

percent, respectively. Approximately \$16 billion was sent to international organizations such as the World Bank and the United Nations, or was not allocated by

Table 6. Net Private Remittances and Related Flows from the United States to Selected Countries in 2009 (Billions of Dollars)

	Mexico	China	India	Canada	Korea	Brazil	Netherlands	Luxembourg	Taiwan	Japan	Total
Net private remittances	19.9	3.2	3.2	2.2	1.0	0.8	0.7	0.5	0.5	0.5	32.4
Average annual percentage change	4%	9%	13%	17%	14%	8%	n.a.	n.a.	3%	n.a.	8%

Remittances from selected countries total \$32.4 billion out of \$82.2 billion for all countries in 2009. Source: Congressional Budget Office based on Bureau of Economic Analysis data.²⁵

These slippery ID cards greased the machinations of international finance.

As a result of increasing remittance volume, coupled with formalization of transfer channels, it has become steadily cheaper to send remittances out of the U.S.²² Fees to transfer \$200 (the amount of a typical remittance) to Latin American countries decreased by an average of 3 percent to 10 percent per year between 2001 and 2009, depending on the recipient country.⁵ Fees to transfer \$200 to Mexico declined from 10.4 percent (\$20.80) in 2001 to 5.6 percent (\$11.20) in 2009,

the BEA to a specific region.²³

Mexico received the largest amount of remittances in 2009 (see Table 6). Of 10 countries receiving 40 percent of total remittances and related flows from the U.S., Mexico received about 61 percent of funds. Mexico’s central bank reported remittances totaling \$21.27 billion in 2010.²⁴

Table 7 shows that private remittances and related flows from the U.S. to Mexico increased by an average of 4 percent per year from 2000–2009.

Remittances are indeed a significant source of in-

come to Mexico. Remittance inflows of \$25.3 to Mexico comprised approximately 3 percent of Mexico’s 2008 GDP.²⁶

Even in 2003 — nearly a decade ago — crude oil exports were Mexico’s largest source of external revenue, with remittances comprising the second largest source, eclipsing direct foreign investment and tourism. In 2003, remittances amounted to 78 percent of crude oil exports, 138.9 percent of tourist expenditures, and 124.2 percent of foreign direct investments. Comparing 1998 to 2003, remittances approximately doubled as a percent of tourist expenditures and more than tripled as

and Michoacán.³⁰ Remittances to the state of Michoacán alone amounted to \$2.13 billion in 2009, while the states of Guanajuato, Mexico state, Jalisco, Veracruz, Puebla, Oaxaca, and Guerrero received sizeable inflows.³¹ In fact, in five Mexican states, including Zacatecas, remittances equaled or exceeded wages generated locally in 2006. In the state of Michoacan, remittances were a huge 182 percent of in-state incomes.³² This undoubtedly must have a deleterious effect on the motivation of residents to pursue local employment.

Surveys show that, regarding remittances to Mexico, 70 percent of the recipients use the funds for consumption, 3 percent use the funds for asset accumulation, and 26 percent use the funds for both purposes.^{5,6} In other words, remittances are used mostly for day-to-day expenditures, not for investment. Research indicates that remittances do not go just to the poor; surveys indicate that the monthly income of most remittance receivers is essentially the same as that of the total population.³³

Particularly in Mexico, remittances are an extension of established cross-border networks, which facilitate a continuing bond between illegal aliens and their home communities. Remittances, therefore, are not simply a de facto transfer of wealth but rather are an extension of deep social connections between the U.S. and Mexico.³⁴

The bigger picture

Mexico’s 2011 population was 114 million with a 1.4 percent rate of natural increase (births minus deaths). This seemingly low rate of constant increase would lead to a doubling of Mexico’s population in 50 years (per the *Rule of 70*³⁵). Population is more accurately projected by the Population Reference Bureau to grow to 131 million by 2025 and to 143 million by 2050.³⁶ With 28 percent of Mexico’s population under the age of 15 and 65 percent between the ages of 15 and 64, Mexico is a country of youth looking at a bleak future.³⁷

Mass migration from Mexico to the U.S. acts as a two-fold safety valve. It reduces population pressure in

Table 7. Net Private Remittances and Related Flows from the U.S. to Mexico (Billions of Dollars, not inflation-adjusted)

	1990	1995	2000	2005	2006	2007	2008	2009	Average Annual Percentage Change 2000-2009
Net private remittances to Mexico	5.6	10.2	14.1	18.0	18.7	19.9	20.8	19.9	4%

Source: Congressional Budget Office based on Bureau of Economic Analysis data.²⁵

Table 8. Relative Importance of Remittances to the Mexican Economy 1998-2003

Remittances as a percentage of:	1998	1999	2000	2001	2002	2003
Crude oil exports	74.5	66.7	44.2	76.7	74.9	78.0
Tourist expenditures	63.3	81.8	79.2	105.9	110.8	138.9
Foreign direct investment	38.5	44.8	39.6	33.2	66.4	124.2
Gross Domestic Product	1.1	1.2	1.1	1.4	1.5	2.2

Source: Banxico²⁷

a percent of foreign direct investment.²⁷ In effect, the huge remittance revenue stream is supplanting foreign investment in Mexico.

The extended role of Mexican remittances

The National Population Council estimates that more than one out of 10 Mexican families in approximately 1.3 million homes depends on remittances.²⁸ In fact, according to a poll by the Inter-American Development Bank, as many as one in five Mexican adults receives money from relatives working in the U.S.²⁹ This support is the mainstay of rural Mexican communities, including Durango, Zacatecas, Guanajuato, Jalisco,

Mexico while allowing population to continue to grow with less adverse effects, thus discouraging implementation of viable domestic population policies. Mass migration also encourages dissatisfied young males to leave their homeland, where they might agitate and fight for societal change if they remained at home. Remittances facilitate this mass migration, and indeed, the ease of making remittances can be considered a motivating factor for workers to leave the country.

In Mexico, out-migration has devastated many Mexican villages.³² In rural areas that have been undermined by NAFTA, small agricultural communities have been particularly hard-hit as workers abandoned the locales.³⁸ Rural agricultural systems have been impoverished by the double-whammy of NAFTA coupled with out-migration to the United States.

Illegal immigration is now much more closely associated with organized crime, which is creeping north into the U.S. Migratory routes into the U.S. have been taken over to a large extent by Mexican cartels. It is now quite common for illegal aliens to carry heavy loads of drugs — particularly marijuana — as they sneak across the border into the U.S. In 2007, \$25 billion in cash from drug sales was smuggled out of the U.S. The amount quickly grew to \$30 billion in 2008.³⁹ It might be reasonable to investigate whether any of this drug money is transferred via the remittance infrastructure.

Remittances comprise Mexico's second largest source of foreign income, next to oil exports. While undoubtedly viewed as a positive factor by Mexico, the pressure to preserve remittances by exporting its enterprising working poor has a long-term negative impact on Mexico's ability to maintain a stable and functioning society.

This vast transfer of wealth into Mexico encourages inappropriate Mexican meddling in U.S. immigration policy. Mexican presidents have pressured for U.S. acceptance of the Matricula Consular ID, as well as for outright amnesty for illegal aliens. Mexican President Felipe Calderon recently rebuked American immigration laws — in person — before the United States Congress.⁴⁰

In the U.S., population recently surged past 300 million people, and with continued mass immigration, population could approach half a billion by the year 2050.⁴¹ Had the U.S. adapted a policy of zero net immigration in 1970, population would have maximized at a more sustainable 282 million.⁴²

In a country saturated with illegal aliens, America's working poor are being directly displaced by foreign workers who willingly accept sub-standard wages.

This is particularly unsettling in the current period of economic distress, with unemployment rates reaching at least 9 percent.⁴³

While displacing American workers, illegal aliens maintain a network of ties back to families and communities in Mexico, thus diluting their interest in assimilating into the U.S. The pervasive poverty of illegal aliens must be blamed in part on their individual choices to send thousands of dollars every year back home. This directly impacts the standard of living of illegal alien workers: in order to send remittances, they submit to living in crowded housing conditions, trim food budgets, and deny themselves adequate medical care.³³ The result is a stratified society of lawful citizens and illegal aliens — a balkanized America.

Conclusion

Remittances are essentially a tax-free transfer of wealth out of the U.S. Approximately \$20 billion of Mexican remittances each year disappear from the U.S. economy via the institutionalized money transfer industry, never to return. While this massive amount may be considered virtual foreign aid, it is a non-sanctioned transfer of wealth that is based on a fundamental violation of America's immigration and employment laws.

Projecting \$26 billion sent as tax-free remittances by illegal aliens to Mexico in 2014,⁴⁴ the negative impacts of this loss on the American economy would be significant. That amount would purchase 1.5 million cars or 15-million computers, and \$200 billion sent back to Mexico over the past 10 years would have purchased Americans an astounding number: 15 million cars along with 150 million additional computers.⁴⁵ It well could have saved countless homeowners from foreclosure.

The financial institutions that participate in transferring remittances profit substantially from the transfer of wealth between nations. The families and communities who participate in this transfer similarly play an active part in the globalization process. It remains to be seen whether the interests of national unity and sovereignty will prevail against these immense financial and demographic pressures. ■

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32. Jay Root, “Migration of working-age people has devastated many Mexican villages,” Knight Ridder Newspapers, Mar 23, 2006, http://www.axisoflogic.com/artman/publish/printer_21528.shtml.

“Heavy migration has all but emptied much of the Mexican countryside.... In five states, including Zacatecas, remittances from abroad now equal 100 percent or more of the salaries generated locally. In the state of Michoacan, money sent home from the United States is 182 percent of in-state incomes.... No corner of Mexico has been left untouched by emigration. In 31 percent of Mexico’s municipalities, population is shrinking steadily because of migration to the United States, according to figures provided by Garcia Zamora.”

33. Paul Hernandez-Coss, “The U.S.-Mexico Remittance Corridor — Lessons on Shifting from Informal to Formal Transfer Systems, World Bank Working Paper No. 47,” The World Bank, (2005): 30. http://siteresources.worldbank.org/EXTAML/Resources/396511-1146581427871/US-Mexico_Remittance_Corridor_WP.pdf

Source: Ginger Thompson, “A Surge in Money Sent Home by Mexicans,” *New York Times*, October 28, 2003.

34. Paul Hernandez-Coss, "The U.S.-Mexico Remittance Corridor — Lessons on Shifting from Informal to Formal Transfer Systems, World Bank Working Paper No. 47," The World Bank, (2005): 38. http://siteresources.worldbank.org/EXTAML/Resources/396511-1146581427871/US-Mexico_Remittance_Corridor_WP.pdf
35. The Rule of 70 is useful for financial as well as demographic analysis. It states that to find the doubling time of a quantity growing at a given annual percentage rate, divide the percentage number into 70 to obtain the approximate number of years required to double. For example, at a 10 percent annual growth rate, doubling time is $70/10 = 7$ years.
<http://www.ecofuture.org/pop/facts/exponential70.html>
36. "2011 World Population Data Sheet," Population Reference Bureau, 2011, http://www.prb.org/pdf11/2011population-data-sheet_eng.pdf
37. "CIA World Factbook - Mexico." Central Intelligence Agency, February, 2012, <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html>
38. "NAFTA and U.S. Corn Subsidies: Explaining the Displacement of Mexico's Corn Farmers," *Prospect Journal of International Affairs at UCSD* (April, 2010), <http://prospectjournal.ucsd.edu/index.php/2010/04/nafta-and-u-s-corn-subsidies-explaining-the-displacement-of-mexicos-corn-farmers/>
39. Wilson Beck, *Wakeup Call From Mexico*, (MuchoPress, 2009), p. 253. Dollar estimates are from the U.S. Department of Justice.
40. *White House*, "Democrats Applaud Mexican President Slamming Arizona Law," FoxNews, May 20, 2010, <http://www.foxnews.com/politics/2010/05/20/mexicos-calderon-takes-case-congress/>
41. "National Population Projections, 2008," U.S. Census Bureau (2008), <http://www.census.gov/population/www/projections/summarytables.html>
42. "Question: Where does the Census Bureau say we're heading by 2060?," *NumbersUSA* <https://www.numbersusa.com/content/learn/about/question-where-does-census-bureau-say-we.html>
43. Charles Hugh Smith, "What's the Real Unemployment Number?," *Daily Finance*, February 9, 2011 <http://www.dailyfinance.com/2011/02/09/real-unemployment-number/>
44. Wilson Beck, *Wakeup Call From Mexico*, (MuchoPress, 2009),
From Table 7 in this report, \$19.9 billion was sent to Mexico in personal remittances in 2009 and is growing at an average of 3 percent per year. Assuming a 3 percent inflation rate, remittances reported in Table 7 would converge with Beck's amount in 2014. Inflation in February, 2012 was 2.93 percent: *Annual Inflation*, InflationData.com (February, 2012)
45. Wilson Beck, *Wakeup Call From Mexico*, (MuchoPress, 2009)