

Remittances, Financial Market Development, and Economic Growth: The Case of Latin America and the Caribbean

B. Gabriela Mundaca 

First published: 15 April 2009

<https://doi.org/10.1111/j.1467-9361.2008.00487.x>

Citations: 180

This paper was written while I was a visiting scholar at the Inter-American Development Bank. I am grateful to this institution for its hospitality, and also to an anonymous referee for the comments and suggestions which have helped to improve this paper significantly.

Abstract

Within a theoretical framework, the author analyzes the effects that both workers' remittances and financial intermediation have on economic growth. It is found, among other things, that remittances can have significant positive long-run effects on growth. The author confronts the implications of the theoretical model proposed with panel data for countries in Latin America and the Caribbean. After considering the effect of long-run investment and demographic variables, and controlling for fixed time and country effects, the empirical analysis indicates that financial intermediation tends to increase the responsiveness of growth to remittances. The overall conclusion is that making financial services more generally available should lead to even better use of remittances, thus boosting growth in these countries.

References

Adams, R.H. Jr., "Workers Remittances and Inequality in Rural Egypt," *Economic Development and Cultural Change* 38 (1989): 45-71.

[Web of Science®](#) | [Google Scholar](#)

Adams, R.H. Jr., "Remittances, Household Expenditure and Investment in Guatemala," Washington, DC: World Bank Policy Research working paper 3532 (2005).

[Google Scholar](#)

Adelman, I. and J.E. Taylor, "Is Structural Adjustment with a Human Face Possible? The Case of Mexico," *Journal of Development Studies* 26 (1990): 387-407.

[Web of Science®](#) | [Google Scholar](#)

Aghion, P., G.-M. Angelatos, A. Banerjee, and K. Manova, "Volatility and Growth: Credit Constraints and Productivity-enhancing Investment," NBER working paper 11349 (2005).

[Google Scholar](#)

Arellano, M. and S. Bond, "Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Equations," *Review of Economic Studies* 58 (1991): 277-97.

[Web of Science®](#) | [Google Scholar](#)

Barham, B. and S. Boucher, "Migration, Remittances and Inequality: Estimating the Net Effects of Migration on Income Distribution," *Journal of Development Economics* 55 (1998): 307-31.

[CAS](#) | [PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Beck, T., R. Levine, and N. Loyaza, "Financial Intermediation and Growth: Causality and Causes," *Journal of Monetary Economics* 46 (2000a): 31-77.

[Web of Science®](#) | [Google Scholar](#)

Beck, T., A. Demirgüç-Kunt, and R. Levine, "A New Database on Financial Development and Structure," *World Bank Economic Review* 14 (2000b): 597-605.

[Web of Science®](#) | [Google Scholar](#)

Bencivenga, V. and B. Smith, "Financial Intermediation and Endogenous Growth," *Review of Economic Studies* 58 (1991): 195-209.

[Web of Science®](#) | [Google Scholar](#)

Bencivenga, V., B. Smith and R. Starr, "Transaction Costs, Technological Choice, and Endogenous Growth," *Journal of Economic Theory* 67 (1995): 153-77.

[Web of Science®](#) | [Google Scholar](#)

Chami, R., C. Fullenkamp, and S. Jahjah, "Are Immigrant Remittance Flows a Source of Capital for Development?" Washington, DC: International Monetary Fund, working paper 189 (2003).

[Google Scholar](#)

Cox, D., Z. Eser, and E. Jimenez, "Motives for Private Transfers over the Life Cycle: An Analytical Framework and Evidence for Peru," *Journal of Development Economics* 55 (1998): 57-80.

[Web of Science®](#) | [Google Scholar](#)

Cox Edwards, A. and M. Ureta, "International Migration, Remittances and Schooling: Evidence from El Salvador," *Journal of Development Economics* 72 (2003): 429-61.

[Web of Science®](#) | [Google Scholar](#)

Demirgüç-Kunt, A. and V. Maksimovic, "Law, Finance, and Firm Growth," *Journal of Finance* 53 (1998): 2107-37.

[Web of Science®](#) | [Google Scholar](#)

Diamond, D. and P. Dybvig, "Bank Runs, Deposit Insurance and Liquidity," *Journal of Political Economy* 91 (1983): 401-19.

[Web of Science®](#) | [Google Scholar](#)

Djajic, S., "International Migration, Remittances and Welfare in a Dependent Economy," *Journal of Development Economics* 21 (1986): 229-34.

[Web of Science®](#) | [Google Scholar](#)

Docquier, F. and H. Rapoport, "Remittances and Inequality: A Dynamic Migration Model," Bonn, Germany: IZA discussion paper 808 (2003).

[Google Scholar](#)

Durand, J., W. Kandel, E.A. Parrado, and D.S. Massey, "International Migration and Development in Mexican Communities," *Demography* 33 (1996): 249-64.

[CAS](#) | [PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Feinerman, E. and E.J. Seiler, "Private Transfers with Incomplete Information: A Contribution to the 'Altruism-exchange Motivation for Transfers' Debate," *Journal of Population Economics* 15 (2002): 715-36.

[Web of Science®](#) | [Google Scholar](#)

Foster, A.D. and M.R. Rosenzweig, "Imperfect Commitment, Altruism, and the Family: Evidence from Transfer Behavior in Low-income Rural Areas," *Review of Economics and Statistics* 83 (2001): 389-407.

[Web of Science®](#) | [Google Scholar](#)

Funkhouser, E., "Remittances from International Migration: A Comparison of El Salvador and Nicaragua," *Review of Economic and Statistics* 77 (1995): 137-46.

[Web of Science®](#) | [Google Scholar](#)

Glytsos, N.P., "Measuring the Income Effects of Migrant Remittances: A Methodological Approach Applied to Greece," *Economic Development and Cultural Change* 42 (1993): 131–68.

[Web of Science®](#) | [Google Scholar](#)

Goldsmith, R.W., *Financial Structure and Development*, New Haven: Yale University Press (1969).

[Google Scholar](#)

Greenwood, J. and B. Jovanovic, "Financial Development, Growth, and the Distribution of Income," *Journal of Political Economy* 98 (1990): 1076–107.

[Web of Science®](#) | [Google Scholar](#)

Hicks, J., *A Theory of Economic History*, Oxford: Clarendon Press (1969).

[Google Scholar](#)

Inter-American Development Bank/Multilateral Investment Fund (IDB), "Remittances 2005. Promoting Financial Democracy," Washington, DC (2006).

[Google Scholar](#)

Levine, R., "Finance and Growth: Theory, Evidence, and Mechanisms," in P. Aghion and S. Durlauf (eds), *Handbook of Economic Growth*, Amsterdam: North-Holland Elsevier Publishers (2006).

[Google Scholar](#)

Lopez Cordova, E., "Globalization, Migration and Development: The Role of Mexican Migrant Remittances," MS, Washington, DC: Inter-American Development Bank (2004).

[Google Scholar](#)

Lucas, R.E.B., "Emigration to South Africa's Mines," *American Economic Review* 77 (1987): 313–30.

[Web of Science®](#) | [Google Scholar](#)

Lucas, R.E.B., "On the Mechanisms of Economic Development," *Journal of Monetary Economics* 22 (1988): 3–42.

[Web of Science®](#) | [Google Scholar](#)

Lucas, R.E.B. and O. Stark, "Motivations to Remit: Evidence from Botswana," *Journal of Political Economy* 93 (1985): 901–18.

[Web of Science®](#) | [Google Scholar](#)

McCormick, B. and J. Wahba, "Overseas Employment and Remittances to a Dual Economy," *The Economic Journal* 110 (2000): 509–34.

[Web of Science®](#) | [Google Scholar](#)

McKinnon, R., *Money and Capital In Economic Development*, Washington, DC: Brookings Institution (1973).

[Google Scholar](#)

Milanovic, B., "Remittances and Income Distribution," *Journal of Economic Studies* 14 (1987): 24–37.

[CAS](#) | [PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Oberai, A.S. and H.K. Manmohan Singh, "Migration, Remittances and Rural Development: Finding of a Case Study in the Indian Punjab," *International Labour Review* 119 (1980): 229–41.

[CAS](#) | [PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Prescott, E. and J. Boyd, "Dynamic Coalitions, Growth, and the Firm," in E. Prescott and N. Wallace (eds), *Contractual Arrangements for Intertemporal Trade*, Minneapolis, MN: University of Minnesota Press (1987).

[Google Scholar](#)

Rajan, R., and L. Zingales, "Financial Development and Growth," *American Economic Review* 88 (1998): 559–86.

[Web of Science®](#) | [Google Scholar](#)

Romer, P.M., "Increasing Returns and Long Run Growth," *Journal of Political Economy* 94 (1986): 1002–37.

[Web of Science®](#) | [Google Scholar](#)

Rozelle, S., J.E. Taylor, and A. DeBrau, "Migration, Remittances, and Agriculture Productivity in China," *American Economic Review* 89 (1999): 287–91.

[Web of Science®](#) | [Google Scholar](#)

Stahl, C.W. and A. Habib, "The Impact of Overseas Workers' Remittances on Indigenous Industries: Evidence from Bangladesh," *The Developing Economies* 27 (1989): 269–85.

[Web of Science®](#) | [Google Scholar](#)

Stark, O., J.E. Taylor, and S. Yitzhaki, "Remittances and Inequality," *Economic Journal* 28 (1986a): 309–22.

[Web of Science®](#) | [Google Scholar](#)

Stark, O., J.E. Taylor, and S. Yitzhaki, "Migration, Remittances and Inequality: A Sensitivity Analysis Using the Extended Gini Index," *Journal of Development Economics* 28 (1986b): 309–22.

[Web of Science®](#) | [Google Scholar](#)

Taylor, J.E., "Remittances and Inequality Reconsidered: Direct, Indirect and Intertemporal Effects," *Journal of Policy Modeling* 14 (1992): 187–208.

[Web of Science®](#) | [Google Scholar](#)

Taylor, J.E. and T.J. Wyatt, "The Shadow Value of Migrant Remittances, Income and Inequality in a Household-farm Economy," *Journal of Development Economics* 32 (1996): 899–912.

[Web of Science®](#) | [Google Scholar](#)

Woodruff, C. and R. Zenteno, "Migration Networks and Microenterprises in Mexico," *Journal of Development Economics* 82 (2007): 509–28.

[Web of Science®](#) | [Google Scholar](#)

World Bank, "World Development Indicators," Washington, DC: The World Bank (2004).

[Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

DMCA & Reporting Piracy

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2025 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY