# *CHAPTER 11.*

# EMIGRANTS' REMITTANCES – A POTENTIALLY IMPORTANT DEVELOPMENT TOOL: THE CASE OF ITALY

*by*

Riccardo Settimo,
Economic Research, International Relations, Bank of Italy

At USD 126 billion in 2004,[1] officially recorded workers' remittances to developing countries have become the second largest source of external finance after foreign direct investment (FDI). If it were possible to take into account also unofficial flows and in-kind transfers, remittances might already represent the largest aggregate financial flow from developed to developing economies.

The increased importance of remittances, together with the relatively low volatility shown across time, has induced academics and policy makers to think of them as an important tool for economic development. But, if the link between economic development and remittances – through the migration channel – is sufficiently direct and obvious, the reverse is not quite so. Indeed, despite the theory's predictions, empirical evidence is unable to identify a robust causation link between remittances, on the one side, and economic development, on the other.

The chapter presents the case advocating that remittances are only potentially an instrument of economic growth. In other words, they represent an opportunity for development in the recipient country. In the absence of the preconditions for remittance flows to have an impact on development, this latter will not materialise. The experience of Italy between the end of the 19th century and up to the First World War will be illustrated briefly, in order to provide consistent evidence. Historically, in all countries characterised by large migration outflows, workers' remittances have had at least two important, direct consequences: first, undoubtedly, they have contributed to raise the living standard of recipient families; second, from a macroeconomic point of view, they have helped significantly to ease the recipient economy's external constraint.

But what is the expected medium-term impact on economic growth and development? Answering this question is not as simple. In line with the predictions of modern growth theory, remittances might affect development through a number of different channels: first of all, by increasing recipient families' disposable income, remittances represent

1. World Bank estimates, *Global Development Finance 2005.*

additional resources available for both consumption and investment. Obviously, the positive effect on output growth is believed to be greatest to the extent that such receipts are saved and invested in productive activities.

In any case, remittances being private transfers, the choice upon the allocation of such funds pertains to the beneficiaries themselves. In this respect, a favourable investment climate, achievable through macroeconomic stability, good institutions, a sound legal environment, efficient markets, sound and competitive banking and financial sectors, incentives to small and medium enterprises, would help create the right preconditions for remittances to have a beneficial impact on medium-term economic growth. A further important channel by which remittances may influence development is, as already mentioned, through the impact on the balance of payments: where the trade balance is persistently weak, and foreign investment scarce and aid limited, the relatively large amounts of remittance receipts may be of great help in alleviating the external constraint. Obviously, the advantages are subordinated to the use of remittance receipts to import the investment goods necessary for an appropriate structural transformation of the economy.[2] On the contrary, further pressures on the current account could derive if such funds were to be devoted mainly to import consumption goods from abroad.

Additional positive repercussions on growth might follow from the qualitative improvement of human capital, to the extent that remitted funds are devoted to health expenses and to finance education. Moreover, positive spillovers on productivity could materialise if a sizeable fraction of emigrants ultimately would return, bringing back the know-how and experience accumulated abroad. Besides their potential benefits, remittances may also convey a number of possible drawbacks. In the face of an unresponsive domestic supply structure, indeed, the induced increase in demand may lead to inflationary pressures. In addition, the easy financing of trade deficits, through abundant remittance flows, can be a disincentive for governments to pursue the structural policies needed to make the domestic economy more competitive in the international trade arena; the result could be a lack of diversification in the production structure, chronic balance-of-payments weakness and increased dependency on remittance receipts.

Finally, moral-hazard considerations, as for instance lower workforce participation on the part of remittance beneficiaries, may eventually lead to limited output growth. In such a context, policy authorities play a central, although indirect, role: that of deploying those preconditions necessary for potential benefits to materialise and for potential risks to be avoided. Those conditions lacking, remittances are likely to have negative repercussions, or at best no durable effect, on the economic development of recipient countries.

The Italian experience is particularly illustrative of what has been said so far, for at least two important reasons: first, traditionally an emigration country, Italy became an immigration one in the early 1970s, transforming itself from a net receiver to a net sender of remittances at the end of the 1990s. Second, and most important, the chronic differences in economic development between northern and southern regions, offer a good example of how remittances may have different effects on economic growth. The emigration phenomenon has characterised Italian history for more than a century, starting since the unification of the country in 1861. The first emigrants were mostly specialised artisans coming from the northern regions and going to European countries like Germany, France and Switzerland. This early migration was soon followed, at the end of the

2. A transformation that would move resources from the production of non-traded goods to the production of traded goods, considered as the main structural change for development and growth.

19th century, by the mass migration of peasants, mainly coming from the central and southern regions, and going to the United States and Canada. The average total outflow grew constantly, from 131 000 departures per year in 1876-1885 to 600 000 in 1906-1915.[3] A large portion of those emigrants were unskilled and illiteracy was widespread.

Emigration flows remained strong until the outbreak of the First World War and started rising again in its immediate aftermath. Outflows were then less intense, first because of entry restrictions in the United States and laws limiting expatriation, and then in response to the effects of the Great Depression; they eventually stopped during the Second World War. Strong emigration was again experienced in the years subsequent to the war and until the early 1960s. Then, the so called "economic miracle" closed most of the Italian per capita income gap with the other developed countries, outflows began declining and Italy started becoming an immigration country.

During the century under consideration, the dynamics of remittance receipts followed quite closely that of emigration flows; fluctuations were clearly attributable to factors like business cycles – both at home and in destination countries – demographic characteristics of migrants, skill level of the migrated workforce, exchange rate variations, restrictive legislative measures, international diplomatic relations, and wars. Remittance flows started decreasing significantly only during the 1970s, following the country's development catch-up.

The largest inflows were experienced from 1900 to 1914, because of persistent rural poverty and high demographic growth but also accompanying the beginning of Italian industrialisation, and following increased economic growth and labour demand worldwide. Throughout those years remittance receipts increased considerably, from ITL 1 billion to around ITL 5 billion in real terms,[4] ranging between one-third and one-tenth of the total balance of payment revenues.

Historians are unanimous in saying that Italian emigrants' remittances played a central role both in improving the welfare of recipient families and in financing national imports.[5] At the household level, indeed, those funds were used to repay loans (mostly contracted in order to finance the expatriation costs), to improve nutritional standards, finance housing, healthcare and education. It is also noteworthy here that an increasing portion of receipts was saved in the form of treasury bonds and bank/postal deposits.[6]

From a macroeconomic viewpoint, the sizeable remittance inflows made a crucial contribution to finance the high external deficits associated with the relatively large imports of raw materials and investment goods which took place during the early stages

3. ISTAT figures on emigration are to be found in Rososli, G. (ed.) (1978), *Un secolo di emigrazione italiana 1876-1976*, Centro Studi Emigrazione, Rome.

4. In 1938 Italina liras, see Balletta F. (1978), "Le rimesse degli emigrati italiani e la bilancia dei pagamenti internazionali (1861-1975)", in F. Assante (ed.), *Il movimento migratorio italiano dall'unità nazionale ai nostri giorni*, Droz, Geneve.

5. See Arru, A. and Ramella, F. (eds) (2000), *L'Italia delle migrazioni interne*, Rome, Donzelli editore, 2003. De Rosa, L., "Le rimesse degli emigrati e lo sviluppo economico dell'Italia (1861-1914)", in *Nuova Rivista Storica*, Set-Dic 2000, pp. 563-574. For a recent reconsideration of the Italian experience see Bevilacqua, P., A. De Clementi and E. Franzina (eds.) (2001), *Storia dell'emigrazione italiana*, Donzelli editore, Rome.

6. See Massullo, G., Economia delle rimesse, in *Storia dell'emigrazione italiana, op. cit.*

of the country's industrial development; this latter started in the last decade of the 19th century and was limited to a few regions in the North.

In spite of the fact that the largest amounts of remittances were received by the central and southern regions, the same that eventually contributed most to Italian emigration, economic development in southern and central Italy did not materialise, at least until the aftermath of the Second World War. It is not appropriate in this chapter to expand the analysis on the reasons behind the chronic underdevelopment of the South. It will suffice to list briefly a number of factors that prevented southern regions from exploiting the remittance opportunity in order to experience the structural transformation and the economic development enjoyed instead by the North.

First of all, it is important to stress the existing differences in initial conditions: for a very long time, southern regions had been poorer that northern ones; illiteracy rates were higher and access to water, healthcare and other basic public services was more difficult. Economic activity was centred on the agricultural sector, where a low-specialisation, non-capital-intensive, largely latifundium-based production structure did not allow competitiveness and growth.

In contrast to the North, southern regions were peripheral with respect to the main commercial networks and were characterised by a lack of infrastructures; the banking sector was largely unable to provide adequate financial support, entrepreneurship was absent, institutional quality was relatively low. Rural customs did not help: quoting one historian, "peasants, the most elderly especially, were used to consider money more as an accumulation device rather than a payment instrument".[7]

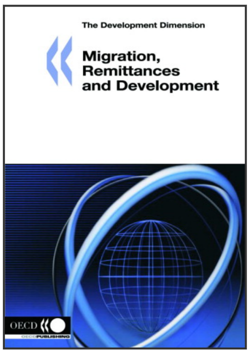
In the North, government policies had pursued industrial development through subsides, public investments and an industrial protectionism; on the contrary, the South – where agriculture played a larger role but was also less dynamic – did not benefit from the same kind of policies. In short, the North enjoyed a superior investment climate and a more consistent set of development policies. This allowed the northern part of the country to benefit from most of the large remittance inflows of that period: these funds were crucial to finance the large external deficits experienced during the years of industrial transformation of the Italian economy. The sizeable savings of recipient households in central and southern regions – channelled through banks, post offices and treasury bonds – represented an important source of funding for investments, both private and public, in the North. In the 1890s two major commercial banks, the *Banca Commerciale Italiana* and the *Credito Italiano*, dedicated to support industrial expansion had appeared just at right time to finance northern development. Finally, the increase in disposable income associated with rising remittance inflows contributed to create new markets for the newly developing northern industrial sector.

With regard to the central and southern regions – characterised, it would be said today, by a "less favorable investment climate" – the benefit was limited to a rise in living standards. Important as it was to reduce poverty, malnourishment, usury, and increase consumption, it was not sufficient to create a self-sustaining path of economic growth. As in the case of 16th century's Spain benefiting from American gold and silver receipts, large amounts of money passed through the pockets of beneficiaries, increased their immediate welfare, but failed to translate into durable economic growth.

7. See Serpieri (1930), pp. 149-150.

# *TABLE OF CONTENTS*

## Part V.
## REMITTANCES AND PROMOTION OF DEVELOPMENT: SOME PROPOSALS




From:
# Migration, Remittances and Development



**Please cite this chapter as:**

Settimo, Riccardo (2006), “Emigrants' Remittances – a Potentially Important Development Tool: The Case of Italy”, in OECD, *Migration, Remittances and Development*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264013896-15-en