The Relationship Between workers' Remittances and Income Inequality in developing countries: Does Transaction Costs of migrants' transfers Matter?

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Abstract

In this paper, we have approached the effect of migrants' remittances on income inequality from the premise that this relationship is not monotonic and strongly dependent on the transaction costs of migrants' transfers. The economic intuition behind including transaction costs in the above relationship is basically found origins in the UN 2030 agenda for Sustainable Development Goals. The SDGs main reference to transaction cost is made in target 10.c to reduce the fees of sending money home to an average equal 3 per cent (of the value of the amount) by 2030. This is because to "To reduce inequalities, policies should be universal, paying attention to the needs of disadvantaged and marginalized population. Also, innovations in technology can help reduce the cost of transferring money for migrant workers." (MacNaughton, 2017).

In order to do, target 10.c preconizes that reducing transaction costs would enhance the financial inclusion of poor immigrants and reduce income inequality; this is because the wellbeing of individuals and communities is inextricably linked to the reduction of poverty and income-inequality. Target 10.c is one of the quantitative tool to set limits on the rising gaps between rich and poor and used as a mean to reduce vertical inequalities within and among countries and the commitment to reducing transaction costs means that more of that income-estimated about US dollar 20 billion per year - will go to migrant workers' families[1].

The problem is raising a severity and a magnitude because the volume of international remittances payments increases each year and would drain much-needed funds from low - income families and from the recipient countries as a whole (Morreti-Langford, 2014). This has been matched with the persistence of inequality, as the income is concentrated among the few at the expense of the many and despite that the global inequality has declined over the last several decades, inequality within countries has been increased -including China and India (the two top remittances destinations) (MacNaughton, 2017). For this reason, one of the main motivation is to go beyond the specific reference to migrants' transfers and their related fees

[1] Inter-Agency Expert Group on SDG indicators and MacNaughton, 2017)

and to consider and address the mutually supporting link between migrants transfer and their price, from one side, and the Goal 10-reducing inequality, from the other.

Contrary to the existing literature that some of them focused on the growth effect of migrants remittances or on the impact of transaction costs on remittances, this paper endeavours to address the role that the transaction costs of migrants remittances would play in affecting the distributional effect of migrants' remittances. To our knowledge, this is the first paper to attempt to highlight this channel. From this research question, we are expecting that a high transaction costs would reduce and refrain the incentive of remittances sender population. The latter is generally made up of recent immigrants with little education who work as labourers for low wages and are seeking to support their relatives in their home country on a frequent basis. The rich in the developing countries probably receive little in the way of remittances because the rich who migrate tend to take their families with him, and are less motivated to be back home for future investment[2]. The instrumental variable (IV) technique would be applied (due to the endogeneity issue of migrants' transfer variable) to empirically address the key role of remittances transaction costs in the relationship between migrants remittances and income inequality in 66 developing countries covering five regions: Sub-Saharan Africa, MENA, Asia (South, East and Pacific), East of Europe and Central Asia, and Latin America and the Caribbean, observed over the period 1995-2015. Data on income inequality would be provided from the World Bank and Milanovic Gini database; information on money transaction costs would be extracted from World Bank remittances price and from Western Union.

[2] World Bank, Global economic outlook, (2006) and Adams, (2007).