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The Disincentives of Remittances?

Despite evidence of the growing significance of investment, it has often been argued that remittances (and aid) are not conducive to some forms of private sector development and thus keep the economy in a state of limited productivity. This is broadly what Ahlburg (1995) has called the “disincentive effect.” Indeed the MIRAB model implies that a strong bureaucracy may stifle rather than increase productivity. This perspective was stressed by a series of authors in the 1990s (MacMaster 1993; Browne 1995; Duncan 1994; Pollard 1995; La Plagne et al 2001). They also drew parallels to the manner in which a booming sector like mining in Papua New Guinea produced the Dutch disease by driving up wage rates (Auty 1993). In the case of Tonga, Sturton argued that, “The Tongan economy displays all the characteristic markings of the ‘Dutch disease’ where a dominant export activity attracts a disproportionate command over resources, pushes up domestic production costs, and reduces international competitiveness. In the Tongan case the ‘booming’ sector has become development assistance and migrants’ remittances” (1992). Similarly Faeamani argued that through the combination of the loss of young adults and an inflow of cash in the form of remittances and goods, “...there is a consequent reduction in garden size and production” (1995, see Fairbairn 1993). More generally, several authors have stressed the wide-ranging notions of dependency that remittances appear to create.

Several authors have specifically stressed that the crowding-out effect of remittances combined with notions of an easy subsistence lifestyle once characterised as “subsistence affluence” (Fisk 1995) together discourage productivity. Thus MacMaster suggested that in the Cook Islands, Samoa, and Tonga, remittances are, “...a mixed blessing as they undermine the incentive to work and are rarely spent on productive investment. They are normally used for unproductive ceremonial purposes or on imported luxury consumption items” (1993). The World Bank argued that, “...remittance inflows have had an adverse effect upon labor supply leading to higher reservation wages and a corresponding reduction in the production of traditional export crops” (1990). These and other similar statements and conclusions (e.g. Ahlburg 1991, Finau 1994) have overall suggested that, “...it is not clear that the net effect of remittances and aid is conducive to long term economic viability and prosperity” (Cuthbertson and Cole 1995) if they

reduce the benefits from investments and drive out private capital. Few of these studies, however, present data that justify these assumptions and conclusions.

A number of the more extreme critics of aid and remittances may be placed among the subsistence affluence school of Pacific paradise dreaming where, as Scott has argued, “It is all too easy and a serious mistake to romanticise the social arrangements that distinguish much of peasant society” (1976; Connell 2003b). It simply cannot be assumed that there is no desire to maximize or even improve incomes and that islanders are somewhat irrational or even lazy. In fact, subsistence activity is only exceptionally abandoned or reduced despite receipt of remittances. More significantly, where there are undeniable possibilities for production, participation is considerable. The development of new cash crops such as coffee in the Papua New Guinea highlands, kava in Vanuatu and Fiji Islands, and vanilla and squash in Tonga sparked enormous spontaneous interest and the rapid growth of these agricultural industries. The rise of squash in Tonga occurred during times when remittance levels were high. The principle participants in the industry had a secondary or tertiary education, overseas experience, and a history of employment with the government, but also had some traditional attitudes. Moreover the growth of the industry was, at least initially, stimulated by government involvement (van der Grijp 1997, 1999). An inverse relationship between squash export earnings and the level of remittances followed (Overton *et al* 1999) again emphasizing the particular economic significance of remittances and also the manner in which remitters respond to needs. Thus where the conditions are appropriate, even if remittances have reached high levels, the private sector may flourish and be stimulated.

The crowding out argument was prominent in the initial formulation of the MIRAB model by Bertram and Watters who argued that with additional sources of income from remittances (and indirectly from aid) people, “...can be expected to evaluate the return on [agricultural] investments relative to the alternatives. On this basis it would be expected that as the alternatives to commercially oriented agriculture would improve, so a reallocation of household effort away from agriculture would take place” (1985). As noted above, there is not a great deal of evidence that this is what happens in most places. Faeamani’s (1995) observations of declining production in Tongan villages may be exceptional and indeed may more likely be a function of labor shortages (Evans 1996, 2001). In circumstances where both remittances (and wages) are high and there has been substantial migration, middle aged and elderly residents may abandon full-time agriculture and become more dependent on remittances or other sources of income as has long been the situation in the Cook Islands (Curson 1979) and in Niue (Cohn 2003), but in

both these countries populations are absolutely declining. Such situations are rare and probably much less common than those where remittances have been used for investment in agricultural projects (Connell 1980). Even so, if this is what has occurred as populations in the Cook Islands and Niue fall, it is nonetheless exactly, "...what is required for efficient economic behaviour: that the family allocates its resources to the highest productive use, even if it happens that this particular use is not 'productive' in the 'domestic' economy, but rather in a 'foreign' economy" (Poirine 1998).

In contrast, even those who have criticized remittances as brakes on independent development and causes of accelerated dependency noted that high levels of dependence on remittances may not affect farmers' responses to price incentives or their interest in new crops (Shankman 1976). O'Meara reached similar conclusions in Samoa while also observing that levels of production were tied to the rate of return. If levels of return were low and falling, villagers reasonably sought to diversify their incomes away from agriculture towards a range of sources including remittances (1990). More recently it has been noted that food production has been less enthusiastically pursued in Samoa but, despite an expected correlation, there was no evidence to link this with remittances. The principal reasons were labor shortages and taro blight (Muliaina 2001). Much the same conclusions were true in Tonga (Evans 2001). In both cases, however, labor shortages were linked to migration.

Most studies of remittances have observed that a significant proportion support traditional customs and obligations. As Evans has stressed, this is at least in some part because economic opportunities are few, so investing in custom avoids what would amount to, "...intensive self-exploitation in agricultural activity" and gives villagers both respect and autonomy (2001). Similarly, sellers in the Nuku'alofa flea market whose goods mostly arrived as remittances and who might be seen to be involved in trade, investment, and market capitalism preferred instead to see themselves as part of complex reciprocal exchange systems that, "...maintained the social integrity of Tongan society despite diasporic fragmentation" (Besnier 2004). It is simply more appropriate to engage in exchange and gift giving rather than sales and purchases. Commercial practices are therefore downplayed in favor of social obligations. Alexeyeff stated many local and overseas Cook Islanders, "...considered economic transactions as emotion-driven actions" (2004). The social and the economic cannot be disentangled.

International migration in the quest for remittance incomes is a conscious strategy for households and even for countries like Kiribati and Tuvalu that makes economic sense in small and open economies. Moreover, as almost every study of remittances has revealed, even in the most difficult

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circumstances recipients make efforts to invest where they can. In the outer islands of Kiribati where most remittances provide basic needs and the custom of *bubuti* (a request that cannot be refused) makes savings let alone business almost impossible, all recipients nevertheless sought to retain some income to invest in land, doughnut bakeries, stores, or even in sewing material for blouses that might later be sold (Borovnik 2004). Here as elsewhere, there is no evidence that any part of the economy is abandoned or neglected but rather that remittances enable some form of diversification and investment even in the most difficult circumstances.