

Are remittances manna from heaven? Evidence from an agnostic approach*

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Abstract

There has been much discussion in the literature about the impact of remittances on receiving economies' output. The literature is currently split between those studies which claim that remittances have a negative impact on receiving economies, or at best no impact, (Chami et al., 2008) and those that claim that remittances benefit receiving countries (Ratha, 2003). In the meantime, there is much more consensus on the impact of remittances on other macroeconomic variables such as exchange rates, prices and interest rates. In this paper, we use these previous results about other variables and the theoretical knowledge that we have on the impact of remittances on the macroeconomy to explore the impact of remittances on output. We use the identification strategy recently developed by Uhlig (Journal of Monetary Economics, 2005) in a VAR context to explore the impact of remittances on Mexico, one of the main remittance-receiving countries in the world. The identification procedure imposes sign restrictions on the response of some variables to a remittance shock for a certain period. These restrictions originate from economic theory and the results of previous studies. No restrictions are placed on the response of the output variable to remittance shocks. In this way, we are able to impose explicit theoretical restrictions in the estimation and, at the same time, to leave the main question of interest (i.e. What is the impact of remittances on Mexican output?) open. Given the lack of imposition of restrictions on the main question of interest, Uhlig (2005) calls this an "agnostic" identification approach.

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