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Squandering Remittances Income in Conspicuous Consumption?

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Introduction

Remittances that is money and/or goods that migrant workers employed outside their home countries send to their homeland have been under scrutiny of researchers, because of their sheer size and potential impact on development. A large number of studies specifically focus on the impact of remittances on household-level consumption and investments. However, literature that investigates the way remittances impact conspicuous consumption that is purchase of goods and services for demonstrating social status remains limited and inconclusive.

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One transition country that has seen large inflows of remittances during the last two decades is Uzbekistan. With 32 million inhabitants, the country is the most populous in Central Asia and one of the leading sources of migrant workers in the former Soviet Union. Most labour migrants from Uzbekistan travel seasonally to Russia and Kazakhstan. The Yegor Gaidar Institute for Economic Policy in Russia estimates the number of Uzbek labourers in Russia in 2017 as about 1.9 million (Bobylev et al., 2017), and the number of Uzbek migrants who were living temporarily in Kazakhstan in that year stood at 800,000 (Seidakhmetov, 2017). Most Uzbek labourers migrate because of limited job opportunities in Uzbekistan and a large wage differential between that available at home and that in destination countries, so the number of families that depend on remittances is large. The economic downturn in Russia took its toll, and remittances from this source country declined from its peak of US$6.6 billion (approximately 12% of Uzbekistan's GDP) in 2013 (Central Bank of Russia, 2014) to US$2.7 billion in 2016 (Central Bank of Russia, 2016). The volume of recorded remittances from Kazakhstan appears to be relatively modest—US$189 million (National Bank of Kazakhstan, 2016)—but the common border with Kazakhstan and the visa-free regime may result in significant underestimation of the figures for remittances. In fact, many migrants prefer to carry their earnings in their pockets and/or to pass them through their network of friends who are traveling back home from Kazakhstan (Kakhkharov & Akimov, 2015).

Despite the recent decline, the flow of remittances to Uzbekistan remains significant, so they have a major influence on household expenditures. Whether remittances are spent on consumption or investment is important to policymaking because long-term economic effects depend on these expenditure patterns. If remittances finance enhancements in human capital, education, health outcomes, or small business development, their contribution to economic growth is maximized (Acosta, 2011). On the other hand, if remittances are spent primarily on consumption of status-oriented goods, their effect is less productive to the economy as a whole.

The body of research that investigates how remittances impact the consumption and investments of households in remittance-receiving

countries has risen with the increasing size of international remittances. However, this impact remains little explored in Uzbekistan, even though the country presents a unique transition and development case in which a gradual approach to transition resulted in relatively good performance in the first decade of transition that became less positive in the second (Pomfret, 2010). A review of the literature shows an abundance of research on many remittance-receiving countries and how migrants and their families use remittances. However, the focus is on major consumption categories like education, health, and food. In particular, the literature fails to consider remittances' impact on expenditures on traditional and cultural ceremonies and status-oriented activities, which could be substantial in traditional societies. For example, Irnazarov (2015) estimates the cost of a wedding in Uzbekistan at around US$10,000, even though the average wage of an Uzbek migrant labourer from Uzbekistan in Russia is only about US$500 a month (Petrova, 2017). Finally, Uzbekistan's experience could be relevant to other transition countries in the region that are at a similar stage in their path to a market economy, that share a common history and culture, and that are alike in terms of exposure to remittances.

This paper bridges this gap in the research using unique household-level survey data collected by the German Agency for International Development (GIZ) and the World Bank in 2013, the 'Uzbekistan Jobs, Skills, and Migration Survey'. The data from the survey, which covers around 1500 households from all parts of Uzbekistan, allows us to scrutinize the impact of remittances on household expenditures on food, non-food consumer goods, health, education, and traditional ceremonies. We compare mean expenditures of households receiving remittances and those that do not to identify the differences in the expenditure patterns. The results provide evidence that households that receive remittances tend to spend these hard-won earnings on traditional ceremonies, wedding gifts, and non-food expenditures. The majority of these expenditures are aimed at increasing the household's social status and could be classified as manifestations of conspicuous consumption to display wealth and income, rather than to cover the consumer's investment needs. The paper also recommends policy measures that could help to rectify this situation.

The rest of the paper is organized as follows: section "Literature Review" reviews the literature on the topic, while section "Data Description and Methodology" presents the data and the research methodology. Section "Results" focuses on the results, and section "Conclusion and Policy Recommendations" draws conclusions and discusses policy implications.

Literature Review

The reasons migrants send remittances are central to the study of how households spend remittances. Lucas and Stark (1985) examine these motivations and create a theoretical framework for micro-level research on remittances. These authors identify three primary motivations at the household-level: 'pure altruism', 'pure self-interest', and 'tempered altruism or enlightened self-interest'. However, in many cases, these motives could account for the same type of migration and remittance behaviours. While a body of research attempts to distinguish on what motivations remittance behaviours depend, the process is difficult because survey data is not always sufficiently detailed.

Classical and neo-classical economic models view migrants as self-interested agents who leave their places of origin in search of new economic opportunities. Migrants' remittances represent the largest observable impact of migration on the migrant-sending areas. The New Economics of Labour Migration (NELM), which was developed by Stark (1991) and Stark's followers and colleagues, links remittance behaviour to migration decisions. According to the NELM, migration decisions are a 'calculated strategy' of households to improve the family's well-being, rather than an 'act of desperation or boundless optimism' (Stark, 1996, p. 26). By sending a member of a household to work in another country, the household seeks to maximize joint income and status and to minimize risks. The NELM also offers insight into migration decisions by linking labour migration with public policy and capital market failures in the labour-source countries. In making the decision to migrate for work, households in these countries design their own strategy to cope with the absence of appropriate credit, insurance

instruments, and public protection. Remittances from a family member abroad provide an additional source of funding, insurance in case the main source of family income falters, and financial protection for a rainy day. As such, migration can be seen as risk aversion. As these findings show, the NELM is an innovative, realistic, and useful framework, and it is widely applied in recent migration studies.

Research on remittances in transition countries applying panel data techniques finds that a reduction in transaction costs and a depreciation of the currency in the host country are the main factors that influence the growth of recorded remittances (Kakhkharov, Akimov, & Rohde, 2017). Transfer fees charged by money transfer operators and banks remain a very important factor influencing the volume of formal remittances. Kakhkharov et al. (2017) conclude that inverse relationship between transaction costs and recorded remittances is due to the fact that migrants switch from informal channels to formal channels to send remittances when costs are low. Thus, lower transfer fees for remittances may help curb the proportion of informal flows and lead to increased use of remittances in the formal economy (Kakhkharov et al., 2017). In addition, it is also found that remittances impact financial development positively (Kakhkharov & Rohde, 2019). This is despite the fact that financial systems of countries in transition economies receiving significant part of remittances is less developed (Kakhkharov & Akimov, 2018).

A number of cross-country empirical studies on the effects of remittances show that remittances reduce poverty in migrant-sending countries (Acosta, Calderon, Fajnzylber, & Lopez, 2008; Adams & Page, 2005; Gupta, Pattillo, & Wagh, 2009). Adams and Page (2005) use one of the broadest set of countries, seventy-one developing nations, while Acosta et al. (2008) investigate the impact of remittances on poverty in ten Latin American countries, and Gupta et al. (2009) assess the poverty-mitigating effect of remittances in sub-Saharan Africa. All of these authors use OLS as a baseline estimation and augment the results with instrumental variable regressions to control for endogeneity. Acosta et al. (2008) also employ a two-stage Heckman model to control for selection, but the extent of poverty reduction in these estimations is only 3–5%. Country-specific analysis using household survey data also

finds evidence that international remittances reduce poverty in Ghana (Adams, 2006), Nepal (Lokshin, Bontch-Osmolovski, & Glinskaya, 2010), Nicaragua (Barham & Boucher, 1998), Tonga (Jimenez-Soto & Brown, 2012), and Mexico (Lopez-Córdova, 2006; Taylor & Mora, 2006).

Many studies find that international remittances are predominantly spent on non-food items. For instance, Castaldo and Reilly (2007) for Albania and Tabuga (2007) for the Philippines find that families that receive remittances invest in durable goods, while Adams and Cuecuecha (2010), Fajnzylber and López (2008), and Taylor and Mora (2006) use household survey data for Guatemala, seven Latin American countries, and Mexico, respectively, to report that households that receive remittances allocate a smaller share of income to food relative to what they would spend without remittances.

Remittances also appear to improve health outcomes in the households that receive remittances. Several studies that use data for Mexico find evidence of this outcome in their empirical research (Duryea, Loīpez-Coīrdova, & Olmedo, 2005; Hildebrandt, McKenzie, Esquivel, & Schargrodsky, 2005; Lopez-Córdova, 2006). De and Ratha (2012) show that remittances benefit children's health in Sri Lanka; Amuedo-Dorantes and Pozo (2011), Amuedo-Dorantes, Sainz, and Pozo (2007), Valero-Gil (2009), and Fajnzylber and López (2008) report a rise in health expenditures among households in Mexico that receive remittances; and Cardona Sosa and Medina (2006) document a positive impact of international remittances on health expenses in Colombia.

Evidence on whether remittances increase household spending on education is mixed. For example, Cox-Edwards and Ureta (2003), Calero, Bedi, and Sparrow (2009), and De and Ratha (2012) report a beneficial influence of remittances on children's education in El Salvador, Ecuador, and Sri Lanka, respectively. Adams and Cuecuecha (2010) in Guatemala, Kifle (2007) in Eritrea, Cardona Sosa and Medina (2006) in Colombia, and Yang (2008) in the Philippines also conclude that households that receive remittances spend more on education than do households that do not receive remittances. However, Fajnzylber and López (2008) use data from seven Latin American countries to find a

positive impact of remittances on education spending for El Salvador, Guatemala, the Dominican Republic, and Peru, while reporting the opposite impact for Jamaica and no impact for Mexico and Nicaragua. In investigating the effect of remittances in Albania, Cattaneo (2012) concludes that remittances have no influence on education spending, while McKenzie and Rapoport (2011) and Lopez-Córdova (2006) report that remittances have a significant negative effect on the school attendance of teenagers in Mexico.

Despite pessimistic concerns that significant proportions of remittances are spent on status-oriented consumption goods, diverting funds from productive investment activities (Airola, 2007; Carling, 2008; Zarate-Hoyos, 2004), the empirical evidence of this effect is scant, perhaps because the detail in the household data is not sufficient. Some examples of conspicuous consumption are found from interviews with migrant households (Day & Içduygu, 1999). To the best of our knowledge, the only recent empirical study that finds evidence of remittance-receiving households engaging in conspicuous consumption is in the case of the Philippines (Tabuga, 2007).

Empirical research in Uzbekistan says little about the consumption patterns of families that send labour migrants. A common problem for researchers is the lack of reliable data on labour migration and the families left behind. As a result, the studies are mainly descriptive or based on small-scale surveys with non-representative samples. For example, Radnitz (2006) uses a survey of 200 people in Tashkent, Uzbekistan. Another research uses data from the Uzbekistan Jobs, Skills, and Migration Survey, which was developed and conducted jointly by the German Society for International Cooperation (GIZ) and the World Bank in 2013–2014, to find that remittances have a significant positive effect on non-food and healthcare expenditures and a negative impact on food spending among families that receive remittances compared to those that do not (Ahunov, Kakhkharov, Parpiev, & Wolfson, 2015). This research applies the Engel curve framework, supplemented by instrumental variable estimations, to correct for endogeneity. Since this strategy relies on the robustness of available instruments, the results are highly sensitive to the quality of the instruments (Adams, 2011). Kakhkharov (2019) finds that households receiving remittances may

invest in family business only when this inflow is supplemented with sufficient income or savings. Finally, based on interviews with labour migrants, Juraev (2012) notes that survival is no longer the main reason for labour migration in Uzbekistan, as remittances are spent mainly on the purchase of non-essentials like real estate and cars.

One of the few rigorous empirical studies of the impact of remittances on household expenditures in a Central Asian country (Tajikistan) is (Clément, 2011), which uses PSM analysis to find that households that receive remittances spend more on food, non-food items, and health than do households that do not receive remittances. However, Clément (2011) finds no evidence of a significant effect of remittances on education expenditures.

Data Description and Methodology

Data

This study uses data from a survey of the jobs, skills, and migration patterns of citizens in Uzbekistan, the Uzbekistan Jobs, Skills, and Migration Survey, to explore the link between remittances and investment. The survey collected comprehensive information not typically captured by traditional household surveys and is representative at the national, regional (Oblast), and urban/rural levels. Two instruments are employed in the survey: a core questionnaire and a skills questionnaire. The sample size of the core questionnaire is 1500 households (8622 individuals). One adult individual per household ($N = 1500$) was randomly selected to partake in the skills questionnaire. The second questionnaire's sample consisted of 1500 individuals.

The core questionnaire contains modules that focus on education, employment, migration, health expenditure, remittances, government transfers, financial services, subjective poverty, housing conditions, and household expenditures, while the skills questionnaire contains detailed modules on labour and work expectations, migration and preparation for migration, language skills, and technical skill training.

Table 12.1 Descriptive statistics

	Obs.	Mean	SD	Min.	Max.
Households that declare remittances as part of their income	1432	0.28	0.45	0	1.00
Households that declare that remittances constitute at least 50% of their income	1432	0.21	0.41	0	1.00
Household size (number of household members)	1432	5.71	2.32	1	17.00
Number of female members aged 16–60	1432	1.83	0.96	0	5.00
Share of children under 7 years old	1432	0.12	0.14	0	0.67
Household members 60 and older	1432	0.53	0.76	0	4.00
Members aged 16–60	1432	3.63	1.67	0	10.00
Dummy: 1 = migrant-sending household, 0 otherwise	1432	0.26	0.44	0	1.00
Self-employed with hired labour	1432	0.81	0.98	0	6.00
Self-employed, as a share of members aged 16–60	1432	0.25	0.58	0	5.00
Members employed in an occasional job	1432	0.17	0.52	0	6.00
Members employed in a temporary job	1432	0.19	0.53	0	5.00
Members employed in a permanent job	1432	0.94	1.04	0	6.00
Members employed in an informal job	1432	0.96	1.13	0	7.00
Dummy: 1 if a household is in a rural area, 0 otherwise	1432	0.63	0.48	0	1.00
Dummy: 1 if a household head is a female, 0 otherwise	1432	0.23	0.42	0	1.00
Dummy: 1 if a household head is married, 0 otherwise	1432	0.75	0.97	0	1.00
Dummy: 1 if a household head is an agricultural worker, 0 otherwise	1432	0.14	0.35	0	1.00
Dummy: 1 if a household head has a higher education, 0 otherwise	1432	0.18	0.39	0	1.00
Dummy: 1 if a household head speaks Russian, 0 otherwise	1432	0.76	0.43	0	1.00
Dummy: 1 if a household head belongs to an ethnic minority, 0 otherwise	1432	0.13	0.34	0	1.00

Source Calculated using the survey data collected by the authors

The descriptive statistics in Table 12.1 show that 28% of households revealed that they receive remittances and that remittances for 21% of all household constitute at least half of their income. Only 26% of households said they had sent a migrant overseas, so it appears that predominantly migrant households have access to remittances, while a smaller number of households may be receiving remittances

Table 12.2 Households with and without migrants

	Non-migrants	Migrants	Total
Number of children under age 5	0.47	0.61	0.52
	(0.73)	(0.85)	(0.78)
Number of children under age 10	1.00	1.14	1.05
	(1.12)	(1.22)	(1.16)
Household size (number of household members)	5.37	6.45	5.75
	(2.24)	(2.34)	(2.33)
Education			
None	0.02	0.01	0.02
	(0.14)	(0.11)	(0.13)
Primary	0.02	0.02	0.02
	(0.13)	(0.13)	(0.13)
Basic	0.07	0.06	0.06
	(0.25)	(0.23)	(0.24)
Secondary	0.38	0.44	0.40
	(0.49)	(0.50)	(0.49)
Secondary special	0.24	0.28	0.26
	(0.43)	(0.45)	(0.44)
Secondary technical	0.06	0.06	0.06
	(0.25)	(0.24)	(0.24)
Higher education	0.20	0.14	0.18
	(0.40)	(0.35)	(0.38)
Graduate school	0.00	0.00	0.00
	(0.03)	(0.00)	(0.03)
Observations	1432		

Source Calculated using the survey data collected by the authors
Notes Mean coefficients; standard deviation in parentheses

from extended family members, friends, or distant relatives. The mean household size of 5.71 members and the average number of household members aged 60 or older (0.53 members) are signs of high dependency ratio that could be pushing labour migrants overseas in search of higher income to sustain dependents. In addition, the descriptive statistics suggest that most of the households that participated in the survey—and since the survey was nationally representative most of the households in Uzbekistan (63%)—are in rural areas.

Table 12.2 compares households in terms of whether they sent a labour migrant to another country. Since sending a migrant to work is closely associated with the receipt of remittances, this characteristic

could be interpreted as a comparison of households that receive and do not receive remittances. It appears that households that sent migrants tend to have more children under age 5 and age 10 and overall larger household sizes. In addition, members of these households have greater secondary or secondary specialized (vocational tertiary) education and less higher education, confirming that most labourers from Uzbekistan go to work in Russia to do '3D' jobs–dirty, dangerous, and demeaning. In general, it appears that households receiving remittances and those that do not have similar characteristics probably due to location in the same market with quite homogenous structure.

Methodology

The method we use to identify the impact of remittances on household expenditures in this research is juxtaposing the means of the outcomes of interest for remittance recipients and non-recipients to see the differences between these two types of households. This method assumes the recipient and non-recipient households are randomly assigned, as in a controlled experiment, or that their characteristics are identical. We acknowledge that households that send a family member overseas and receive remittances may differ from households that do not. For example, that one household has more dependents than another might affect the outcome variables and make it difficult to ascertain whether the differences in the observable outcomes are due to exposure to remittances or to the difference in the number of dependents. Nevertheless, since as descriptive statistics show, in this country case study the characteristics of remittance recipient and non-recipient households appear to be similar, comparing means could give interesting insights on how households, whose exposure to remittances differs, spend their income.[1]

[1]The authors intend to further develop their analysis by using propensity score matching methodology in future.

Table 12.3 Mean differences in household spending for certain items (in logs of Uzbek soums)

	Households with no remittances as a source of income	Households with remittances part of their income	Mean difference (2) – (1)	Households whose remittances constitute at least 50% of their income	Mean difference (4) – (1)
Expenditure	(1)	(2)	(3)	(4)	(5)
School fees/tuition	3.45	3.31	−0.14	3.41	−0.04
	(2.47)	(2.52)	(0.16)	(2.51)	(0.18)
Private tutoring	0.34	0.30	−0.04	0.34	0.00
	(1.08)	(0.99)	(0.07)	(1.02)	(0.08)
Food	3.07	2.91	−0.16***	2.91	−0.16***
	(0.64)	(0.55)	(0.04)	(0.57)	(0.04)
Dining out	1.51	1.43	−0.08	1.39	−0.12
	(1.02)	(1.06)	(0.13)	(1.02)	(0.15)
Non-food	4.29	4.57	0.28***	4.63	0.35***
	(1.41)	(1.61)	(0.09)	(1.62)	(0.10)
Maintenance and repair of personal vehicles	5.46	5.47	0.01	5.53	0.07
	(1.28)	(1.20)	(0.17)	(1.17)	(0.20)
Home improvements	5.58	6.07	0.49***	6.09	0.51***
	(1.60)	(1.37)	(0.19)	(1.37)	(0.21)
Small electric appliances	6.68	7.21	0.53***	7.29	0.61***
	(1.33)	(1.42)	(0.15)	(1.44)	(0.16)
Vehicle, land, and property tax	3.61	3.60	0.00	3.61	0.00
	(0.75)	(0.80)	(0.11)	(0.76)	(0.13)
Wedding gifts	4.50	4.55	0.05	4.61	0.11***
	(0.59)	(0.59)	(0.04)	(0.54)	(0.05)
Ceremonies	4.99	5.09	0.10	5.13	0.14*
	(1.11)	(1.06)	(0.07)	(1.05)	(0.08)
Observations	1497		1497		1387

Source Calculated using the survey data collected by the authors
Notes Standard errors are in parentheses. $^{*}p<0.1$, $^{**}p<0.05$, $^{***}p<0.01$

Results

Table 12.3 compares the means of some household expenditures in logs of Uzbek soums. Using data from the Uzbekistan Jobs, Skills, and Migration Survey, this comparison is made for households that receive remittances and those that do not receive remittances and for households whose remittances constitute more than 50% of their income and those that do not receive remittances. It appears that both categories of households that receive remittances spend less on food and more on non-food items than do households that do not receive remittances. They also tend to spend greater amounts in Uzbek soums on home improvement and small electric appliances. In addition, households that generate more than 50% of their income from remittances spend 2.4% more on wedding gifts and 2.8% more on traditional rites/ceremonies (e.g., weddings, birthdays) than do households that do not receive remittances.

Conclusion and Policy Recommendations

Remittances have become a very important international flow of funds affecting many macro-and micro-economic parametres in the recipient economies. Estimating the impact of remittances on household expenditures could be crucial for policymaking as the way how these funds are spent has vital economic consequences. In the present research endeavour, we compare average expenditures of households receiving remittances with those that do not using GIZ/World Bank household survey data. The main purpose is to investigate the impact of remittances on household expenditures in Uzbekistan. This straightforward comparison of expenditures patterns indicates that households in Uzbekistan that receive remittances engage, despite their relatively meagre incomes, in conspicuous consumption by spending more on marriage gifts and wedding ceremonies.

Our research's findings show policymakers how remittances are spent by recipient households, so they can encourage channelling these resources into productive investments, rather than wedding gifts and

ceremonies. For example, public policy measures could be designed to teach households about the benefits of investment in human and business capital versus the illusory advantages of increasing social status.

One limitation of the present research is that the method comparing mean expenditures in logs of local currency assumes the recipient and non-recipient households are identical. Although the summary statistics of the survey indicate that these two sets of households are similar, they are not identical. In other words, households receiving remittances may have a number of characteristics that make them different from those households that do not. These differences may include educational attainment, marital status of the household head and many other community and social attributes. Obviously, the presence of these differences makes it difficult to ascertain whether the differences in the mean expenditures are due to exposure to remittances or to the differences in the individual, social, or community characteristics.

Finally, migration and remittances research elsewhere shows that the best way to stimulate efficient use of remittances is to create an economic environment that facilitates development in general, presents favourable conditions for conducting business, and offers a well-functioning financial system. An education and vocational system that focuses on helping households develop entrepreneurial skills would also help to induce migrants to invest in their home economies and reap the benefits of remittances more efficiently.

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