

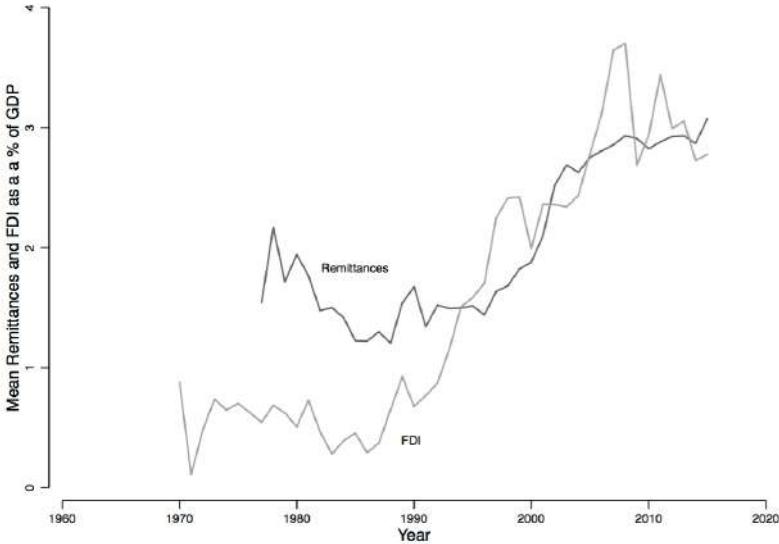
When the Money Stops: Fluctuations in Financial Remittances & Incumbent Approval in Central-Eastern Europe, the Caucasus and Central Asia

Katerina Tertychnaya, Catherine E. De Vries, Hector Solaz* & David Doyle

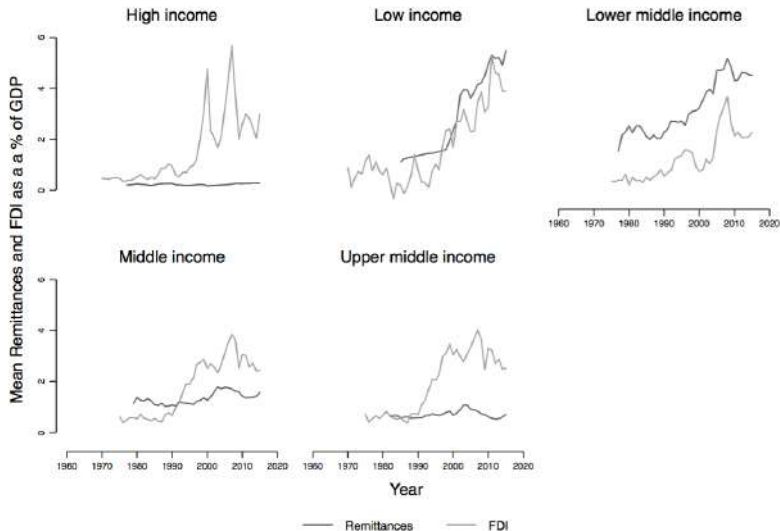
*Free University (VU) Amsterdam

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Motivation



The Importance of Financial Remittances



Consequences of Remittances

- Development economists highlight positive role in reducing poverty, illiteracy & improving access to education and public goods (Fajnzylber et al. 2008), although debate on growth (Page & Plaza 2006).
- Overall, favourable image emerges of remittances as a risk-sharing mechanism.
- We know less about the political effects of remittances on the countries or individuals that receive them.

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Political Consequences of Remittances

- Existing work mainly at macro-level on public accountability (Abdih et al. 2012, Tyburski 2012, Aparicio & Meseguer 2012), authoritarian tenure (Ahmed 2012, Escrib-Folch et al. 2015), government expenditures (Chaudhry 1997, Ahmed 2012, Singer 2012, Doyle 2015) & citizenship requirements (Leblang 2011).
- Micro level evidence mostly from Latin America showing that financial remittances a) affect attitudes towards taxation and the state (Doyle 2015, Acevedo 2016a & b) increase economic optimism & incumbent approval (Germano 2010, Bravo 2012).
- Yet, this evidence is not dynamic, what happens when remittances change?

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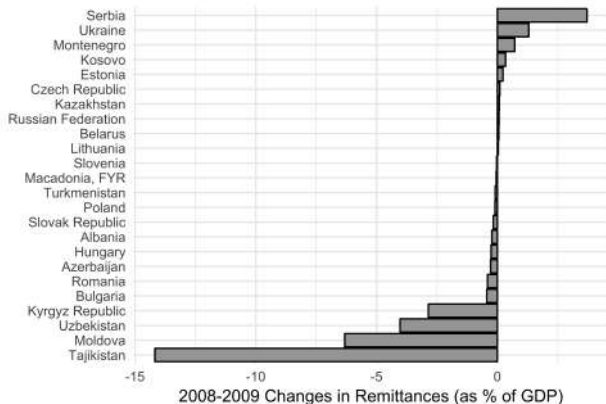
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Our Contribution

What are the political consequences of fluctuations in the volume in remittances?



Today's Talk

- 1 Pocketbook argument: when people experience a decrease (increase) in remittances, they become less (more) satisfied about their household economic situation and as a result approve less (more) of the incumbent.
- 2 Form of misattribution, punish/reward developments outside incumbent control, rather than a reaction to failing to 'treat' welfare consequences of decline.
- 3 Unique panel data from Kyrgyzstan (2010-2013) to examine how fluctuations in remittances shape incumbent approval among recipients.
- 4 Kyrgyzstan case allows us to better deal with social remittances & employ IV approach to test exogeneity of remittances.
- 5 Complement evidence with cross-sectional data from 28 countries in Eastern Europe, Central Asia & Caucasus.

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- Although debate exists about remittances and economic growth, majority of economists view remittances as an important international risk-sharing mechanism (e.g. Yang & Choi 2007).
- This perspective hinges on assumption that remittance payments either remain stable, or work anti-cyclically.
- But what happens if they don't? How do fluctuations in remittances influence the political attitudes of recipients?
- We explore how fluctuations in remitted income affect support for the incumbent in remittance-receiving countries.

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Our Argument

- We expect that when remittance inflows increase, economic optimism and incumbent approval will also increase, but when payments decline, recipients will punish incumbents.
- By relying on their pocketbooks, remittance recipients are rewarding or punishing incumbents at home for economic developments abroad, i.e. in remittance sending economies.
- Form of **misattribution**: reward/punishment of incumbents for events that are largely outside of their control (Campello & Zucco 2016).
- For electoral accountability to function properly, voters need to reward/punish, incumbents for outcomes for which they are primarily responsible (Kayser & Peress 2012).

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Why Does Misattribution Matter?

- 1 Economic voting is particularly important in developing countries, where party labels have less meaning (Lupu 2016).
- 2 If in these low-information environments, voters can credibly punish the poor performance and reward good ones, a chain of accountability is ensured (Stokes 2001).
- 3 It might be perfectly rational for voters in developing economies characterized by high volatility & paucity of information to reward/punish incumbents for developments abroad.
- 4 Yet, this may distort economic vote as an instrument of accountability & erode accountability mechanisms, which are often rudimentary in these contexts, even further (Campello & Zucco 2018).
- 5 Flows of remittances to the developing world might become political manifestation of economic dependency (Wibbels 2006).

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Why Is This Important?

- 1 **Contribution to the study of remittances:** Problem of bias due to unobserved household and individual heterogeneity (Bravo 2012). Try to improve on this by studying *changes*.
- 2 **Contribution to economic voting:** Particularly important in developing countries & new democracies, in line with growing body of work we show that in information starved environments voters use any change in pocketbook also when largely outside control of incumbent.
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Empirical Approach

- 1 Panel data from Kyrgyzstan (2010-2013) estimating effect of changes in remittances on changes in trust in president & in household economic evaluations (also compared to other household shocks).
- 2 Bolster external validity by relying on cross-sectional data from 28 countries in Central-Eastern Europe, the Caucasus and Central Asia (Life in Transition 2010): decline in remittances on government approval and economic blame attribution.

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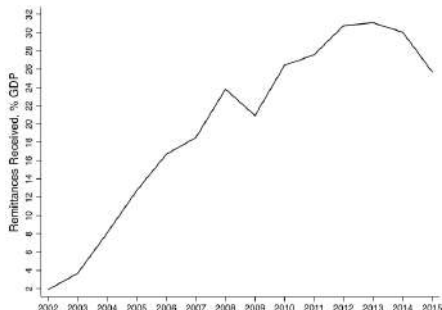
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Case Selection



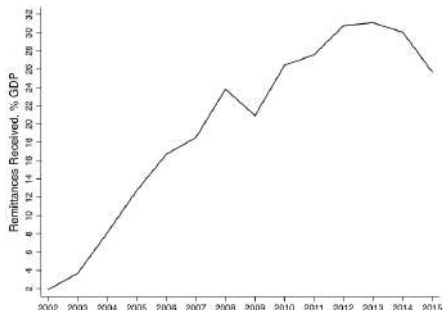
Economic Developments

- Kyrgyzstan's economy is one of most remittance-dependent economies.
- Government did not engage in any policy to limit migration, or encourage remittances, never implemented a formal tax on remittances & official exchange rate is allowed to float freely



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LiK panel

- Life in Kyrgyzstan (LiK) panel with four annual waves between 2010-2013 of 3,000 households, we focus on changes in remittance among recipients: over 1200 respondents nested in roughly 900 households.
- Includes a question on evaluation of the president & personal economic situation.
- To capture changes in remittances, three measures: 1) changes in amount, 2) changes in frequency, 3) changes in remittances index that captures if remittances are substantial & regular (Germano index 2010).
- Use dynamic panel data estimation as well as hierarchical linear models & matching as robustness checks.

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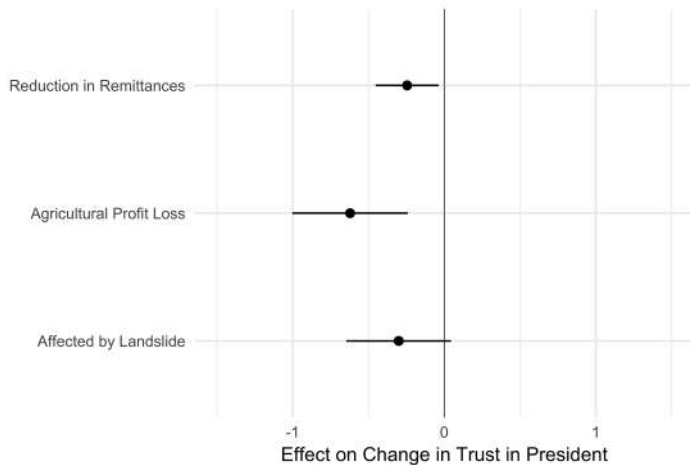
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Effect of Change in Remittances on Approval, LiK

COVARIATES	Change in Trust in President $t-(t-1)$		
	Model (1)	Model (2)	Model (3)
Change in Amount of Remittances $t-(t-1)$	0.039** (0.019)		
Change in Frequency of Remittances $t-(t-1)$		0.071** (0.031)	
Change in Remittances Index $t-(t-1)$			0.062*** (0.024)
Individual level Covariates	✓	✓	✓
Fixed Effects			
Household	✓	✓	✓
Survey Wave	✓	✓	✓
Constant	0.830 (1.107)	0.747 (1.102)	0.851 (1.105)
Observations (Individuals, Groups)	1,311 882	1,297 880	1,311 882
R ² Between	0.57	0.56	0.57

Significant at the *** p<0.01, ** p<0.05, * p<0.10 level. Source: Life in Kyrgyzstan Panel Survey, 2010-2013.

Effect of Household Shocks on Approval, LiK



Effect on Personal Economic Evaluations, LiK

COVARIATES	Change in Concern about Personal Economic Situation $t-(t-1)$		
	Model (1)	Model (2)	Model (3)
Change in Amount of Remittances $t-(t-1)$	-0.160*** (0.046)		
Change in Frequency of Remittances $t-(t-1)$		-0.261*** (0.075)	
Change in Remittances Index $t-(t-1)$			-0.132** (0.054)
Individual level Covariates	✓	✓	✓
Fixed Effects			
Household	✓	✓	✓
Survey Wave	✓	✓	✓
Constant	-2.867 (2.644)	-2.404 (2.632)	-2.867 (2.653)
Observations (Individuals Groups)	1,321 893	1,307 891	1,321 893
R ² Between	0.64	0.64	0.63

Significant at the *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ level. Source: Life in Kyrgyzstan Panel Survey, 2010-2013.

Cross-national Evidence, LiTS 2010

- Survey from the ERDB conducted in 2010 in 28 countries in surveys in Central Eastern Europe, the Caucasus and Central Asia.

Covariates	Government Approval Model (1)	Economic Blame Attribution Model (2)
Reduction in Remittances	-0.038** (0.018)	0.079* (0.043)
Age	0.001*** (0.0005)	-0.003*** (0.001)
Gender	-0.069*** (0.014)	-0.043 (0.032)
Married	-0.008 (0.014)	0.095*** (0.033)
Employed	0.027* (0.015)	-0.026 (0.035)
Wealth Index	-0.004 (0.004)	-0.073*** (0.010)
Education	-0.011 (0.012)	-0.048* (0.027)
Life Satisfaction	0.165*** (0.007)	-0.141*** (0.015)
Risk Attitude	-0.001 (0.003)	-0.003 (0.007)
Annual Growth	0.101*** (0.021)	-0.122*** (0.041)
Constant	2.008*** (0.096)	0.798*** (0.197)
Log Likelihood	-22444	-12323
AIC	44914	24671
BIC	45015	24765
Individuals	17,389	19,684
Countries	28	28

Significant at the *** p<0.01, ** p<0.05, * p<0.10 level. Source: Life in Transition Survey, 2010.

Evaluating the Mechanism

- Misattribution hinges on idea that incumbents are punished for developments outside their control.
- Can the incumbent control fluctuations in remittances? No measures taken in Kyrgyzstan, yet perform two additional tests.
 - 1 Replicate results using change in approval for local community leaders as they cannot manipulate official exchange rate or introduce schemes to encourage migrants to remit more.
 - 2 Rely on instrumental variable: share of women in household interacted with change in annual unemployment in Russia. Household-level characteristics are correlated with amount of remittances received, but not with incumbent approval.

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Evaluating the Mechanism

- Replication of results regressing changes in remittances on changes in approval for local community leaders.

COVARIATES	Change in Trust in Local Community Leaders $t-(t-1)$		
	Model (1)	Model (2)	Model (3)
Change in Amount of Remittances $t-(t-1)$	0.290*** (0.075)		
Change in Frequency of Remittances $t-(t-1)$		0.096** (0.038)	
Change in Remittances Index $t-(t-1)$			0.085*** (0.027)
Primary Education	0.057 (0.450)	0.126 (0.453)	0.077 (0.452)
Secondary Education	-0.002 (0.435)	0.016 (0.438)	0.028 (0.437)
University Education	0.149 (0.467)	0.191 (0.470)	0.199 (0.469)
Gender	-0.078 (0.077)	-0.062 (0.077)	-0.074 (0.077)
Age	-0.0004 (0.003)	0.001 (0.003)	0.0004 (0.003)
Ethnicity	-0.262 (0.461)	-0.219 (0.464)	-0.200 (0.463)
Married	0.087 (0.120)	0.051 (0.120)	0.050 (0.120)
Employed	-0.056 (0.112)	-0.020 (0.114)	-0.080 (0.112)
Intention to Migrate	0.253 (0.177)	0.206 (0.178)	0.189 (0.177)
Wealth Index	-0.002 (0.026)	0.009 (0.026)	0.001 (0.026)
Household Income	-0.002*** (0.0004)	-0.002*** (0.001)	-0.002*** (0.0004)

Evaluating the Mechanism

- Instrumental variable: share of women in household interacted with change in annual unemployment in Russia.

Female-to-Male Ratio in Household Weighted by Annual Change in Russian Unemployment		
COVARIATES	Model (1)	Model (2)
Instrumented Change in Amount of Remittances _(i,t,t-1)	0.281** (0.132)	0.309** (0.138)
Primary Education	0.159 (0.445)	0.103 (0.450)
Secondary Education	0.337 (0.428)	0.291 (0.433)
University Education	0.321 (0.476)	0.251 (0.483)
Gender	-0.036 (0.079)	-0.067 (0.083)
Age	0.005 (0.003)	0.006* (0.003)
Married	0.017 (0.123)	0.056 (0.128)
Ethnicity	0.148 (0.537)	0.520 (0.683)
Employed	0.055 (0.125)	0.095 (0.133)
Intention to Migrate	0.034 (0.192)	0.078 (0.205)
Wealth Index	-0.037* (0.019)	-0.037* (0.020)
Household Income	-0.001*** (0.0004)	-0.001** (0.0004)
Risk Attitude	0.017 (0.020)	0.029 (0.021)
Life Satisfaction	0.103*** (0.031)	0.097*** (0.034)
Regional Exports		0.003* (0.001)

Evaluating the Mechanism

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- Can we separate out these two mechanisms from our results?
 - 1 We find that just like decreases in remittances dampen support for the president, increases in remittances lead to more support.
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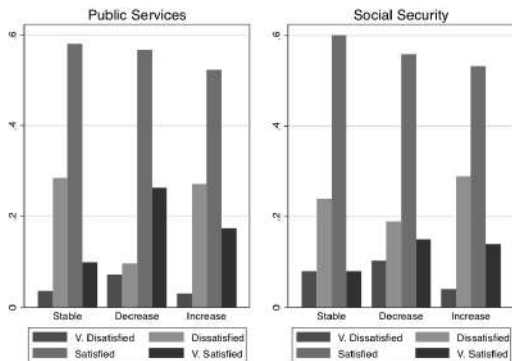
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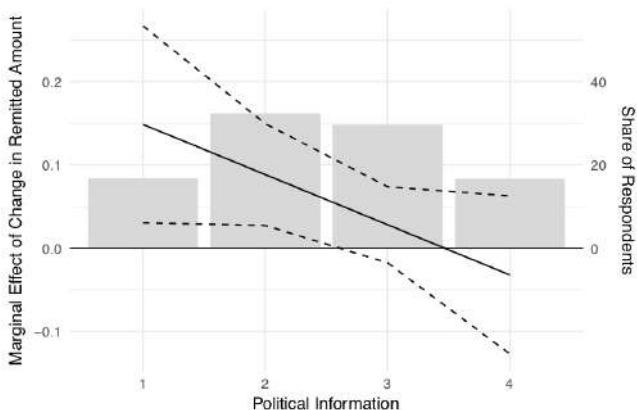
Evaluating the Mechanism

- No empirical support for the argument that households that experience a decline in remittances increase their demand for public safety nets, or evaluations of them.



Misattribution? Evaluating the Mechanism

- Reward and punishment decreases with political information, which is in line with misattribution.



Summary

- We do not take issue with the idea that remittances increase incumbent approval, and thus may lengthen regime tenure (Ahmed 2016).
- To our knowledge we are the first to explore their dynamic effects.
- *When remittances decline, remittance recipients attribute the deleterious effect on their household economic situation to the incumbent, and vice versa.*

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Discussion

- Our findings highlight the precarious equilibrium that remittances can generate.
- They create stability and increase support for incumbent assuming they remain counter-cyclical, but a decline may actually generate more economic grievances in times of crisis when stability is most needed, and lead to more political volatility.
- The effect of remittances decline are similar to other income shocks that households may experience.
- Financial remittances might not only serve as a risk-sharing mechanism as developmental economists suggest, but might transport the political risk associated with economic decline from one country to another.

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