Families of overseas workers get peso windfall

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MANILA — The depreciation of the Philippine peso against foreign currencies has allowed families of Filipino migrant workers to improve their lives.

With more cash in their hands, they are able to make more entrepreneurial investments and enroll their children in better schools, thus reducing child labor, according to a study on overseas Filipino workers released by the University of Michigan.

According to Philippine-born Dean Yang, an associate professor of the University of Michigan's Gerald R. Ford School of Public Policy, the depreciation of the peso against foreign currencies like the U.S. dollar or the Saudi riyal, has encouraged migrant families to take more risks in both investment and entrepreneurial opportunities.

Published in May 2004, Yang's paper "International Migration, Human Capital, and Entrepreneurship: Evidence from Philippine Migrant Exchange Rate Shocks" analyzed how migrants' households in developing countries responded to changes in economic conditions. The study took the 1997-98 Asian financial crisis as an example of economic change.

"The point of the paper is that international migration allows families to acquire the financial resources to improve their own lives," Yang wrote.

"Therefore, the government should be very careful not to do anything that makes it more difficult for migrants to go overseas."

Asian financial crisis

Many economies in Asia, which include South Korea and Malaysia, went into recession or bailout by multilateral agencies like the World Bank during the financial crisis.

The Philippine economy may have shown more resilience compared to these countries, but the peso depreciated by 73 percent against the U.S. dollar, from P26 to $1 before June 1997 to P45 to $1 in October 1998.

Yang's study showed that during the period, the peso lost an average 52 percent of its value against the currencies of the U.S., Hong Kong, Saudi Arabia, and United Arab Emirates. These countries were hosting 3.5 million Filipino migrant workers or half of the total overseas Filipino workers at the time.

On the other hand, the currencies of Japan, Singapore, and Taiwan, where some 450,000 OFWs worked, strengthened by 26 to 32 percent against the peso while the currencies of South Korea and Malaysia, which had more than 200,000 OFWs, fell slightly between one to four percent against the peso.

During this period, according to the Commission on Filipinos Overseas, about seven million Filipino migrants – some three million contract workers, 2.15 million permanent residents, and 1.8 million undocumented workers – were spread out over more than a dozen countries.

Exchange rate matters

"In families whose migrants experienced more favorable exchange rate improvements (like those in Saudi Arabia, Hong Kong, and the U.S.), I found the greatest increases in remittances, child schooling and entrepreneurship, and the greatest declines in child labor," Yang said in an e-mail response to questions posed by the OFW Journalism Consortium.

However, Yang found that "families whose migrants experienced the worst exchange-rate changes (like those in [South] Korea and Malaysia) had the smallest increases in remittances, child schooling, and entrepreneurship, and the biggest increases in child labor."

Yang explained that for an overseas Filipino worker who is earning in foreign currency, "a depreciation of the Philippine peso against the dollar is a good thing, because her salary (in dollars) will be convertible to more pesos after the depreciation".

Yang claimed the depreciation of the peso against the foreign currencies or what he called "favorable shocks" to the migrants, has generally improved the quality of life of the migrant families.

He explained that a 20-percent improvement in the exchange rate (meaning the currency of the migrant appreciates by 20 percent vs. the Philippine peso) between July 1997 and October 1998, brought about the following improvements in migrants' households back home: remittances rose by 4.8 percent of household income and the probability of owning a vehicle (jeep, motorcycle, or car) rose by 2.8 percentage points.

No waste in remittances

"In my interactions with policy-makers and migrant families in the Philippines, I have often heard the claim that remittances are 'wasted,' in the sense that they are spent on conspicuous consumption items like TVs, VCRs, refrigerators, etc. and not on things that would really improve their lives in the long run.

Others claim the funds are dissipated by relatives and neighbors asking for handouts, so that the remittance recipients are not left with much in the end.
Yang shows in his paper that these claims are inaccurate, if not false.
Yang said when he analyzed the work hours of the children of migrants, he saw a decrease in working hours for both males and females. Girls aged 10-17 were 2.6 percentage points were more likely to stay in school, boys aged 10-17 worked 0.64 hours less per week.

He also saw that household education expenditures rose 16 percent, leading him to conclude that the children were more likely to stay in school and work fewer hours in the labor force.

Risky investments

He said the households that experienced more favorable exchange rates and have previous experience in running businesses of their own placed their money in risky investments rather than waiting for their money to grow in risk-free investments.

“The more positive one’s exchange rate shock, the more likely it is that a household will also take on more entrepreneurial risk,” he wrote. He did not specify the riskier investments or enterprises that the households established.
However, he found that “households’ entrepreneurial income becomes more volatile or fluctuates more when their migrants experience better exchange rate shocks. This is why I say households seem to be taking on more risk.”

The study used National Statistics Office’s data of the Labor Force Survey (LFS), Survey on Overseas Filipinos (SOF), Family Income and Expenditure Survey (Fies), and the Annual Poverty Indicator Survey (Apis).

LFS collects data on primary activity, which includes the students, hours worked and demographic characteristics of household members aged 10 and above.
SOF collects information on the households’ overseas members, their location, the value of remittances, among others.

Fies records all income sources, including cash receipts from overseas. The Apis records income sources, expenditures, and ownership of durable goods.

Increase in self-employment

Yang said those families that had a favorable exchange rate shock also saw a dramatic increase – by two hours a week – in the total household hours worked in self-employment.

However, this did not raise the household entrepreneurial income since the primary effect of a more favorable exchange rate shock on household entrepreneurial income is to raise its volatility rather than

its level.

“These results may reflect the fact that more favorable economic conditions for migrants allow source households to engage in riskier productive activities. Households whose migrants experience worse shocks may reduce their exposure to entrepreneurial risk, and therefore experience smaller fluctuations in entrepreneurial incomes,” he wrote.

“There is also suggestive evidence that hours worked without pay in family-operated farms or businesses declines with more favorable exchange rate shocks.”
The favorable impact, he added, was on households that had already some business activity before the financial crisis. A comparison of the data between those who had some experience in entrepreneurial activity and those who had not, showed that the income from the businesses of the former, was much higher compared with that of the latter, which was “substantially smaller or closer to zero.”

“As it turns out, the impact of migrant exchange rate shocks on household entrepreneurial labor and entrepreneurial income acts entirely on households that already had some entrepreneurial activity in the pre-crisis period,” he said.

According to Yang, risky entrepreneurship overtook risk-free investments during the period under study, with the migrant income remaining constant, resulting in a higher entrepreneurial labor supply but more volatile income from these investments.

His findings, he said, shed light on how developed countries’ policies on migrant workers can affect households in poor countries. Rich-country policies that give employment opportunities for migrant workers can stimulate human capital investment and poor-country households.

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