International Remittances, Institutions, and Prosperity: An Application of the Theory of Growth

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Abstract

The literature on international remittances continues to grow alongside the role they play in the economies of low-and-middle-income countries (LMICs). Thus far, discussion linking remittances with economic growth has come out inconclusive. The interpretation of said data is dependent on an economic theory linking casual relations. This paper attempts to further the discussion by analyzing the impact of remittances on LMICs using the theory of economic growth presented by the Austrian school of economics. Statistics on remittance flows of two countries, El Salvador and Guatemala, will be compared to economic metrics and their institutional quality. The paper aims to encourage further research into the effects of remittances under different institutional frameworks and ultimately understand how they can be channeled toward economic development. It is concluded that remittances' impact on the development of LMICs is dependent on institutions that foster economic freedom over state-imposed measures.

Introduction

The question still debated within the economics profession to this day is how economies go from poverty to economic prosperity. While some countries have grown to develop high standards of living unknown to the richest in the past, other countries have remained stagnant or have even regressed. At the same time, the role that institutions play in economic development is growing in interest. Institutions are defined in many ways according to the literature (Ritenour 2023, 164). They can be defined as a "significant practice, relationship, or organization in a society or culture" setting the "rules of the game" in society and constraining human action. They allow for the decrease of uncertainty. It is institutions that allow economic development, or the widening of the range of alternatives to open as consumers and producers, to happen.

Among those nations considered LMICs, international remittances, or the sending and receiving of money across political borders, are significant portions of their economies' activity. The conclusions on the effects of remittances on economic development vary (Rodriguez-Sanchez 2023, 22-23). While some studies find a small, but positive connection between the two, other studies find no meaningful connection or even negative correlation. These variations in the literature may partially depend on the economic theories that presuppose any econometric analysis. A correct understanding of how economies go from poverty to prosperity, and the institutions necessary to make this transformation possible must be assumed first. Instead of analyzing whether it is remittances as such that lead to positive or negative effects in economic development, the impact of remittances is assessed under differing institutional settings. El Salvador and Guatemala, two relatively similar nations differing in the quality of their institutions via the Fraser Economic Freedom Index from 1990-2020 will be used. World Bank data from 1990-2020 on remittances as a % of GDP, GDP per worker ($), GDP per capital ($), new business formation per capita, and research & development expenditures as a % of GDP will be gathered as proxies for the institutions necessary for economic development (despite some gaps in the data). It is argued that economic freedom generates institutions that channel remittance income in LMICs towards savings and investment, or economic development, rather than for simple consumption.

Section 1 will cover the Austrian theory of economic prosperity grounded on the principles of subjectivism in contrast to other theories. Section 2 covers remittances, the forms in which they appear, the ways they are measured, and important figures illustrating their importance to LMICs. Section 3 assesses whether there is a connection between economic institutions, remittance income, and economic development as measured by a series of economic

indicators to the specific cases of El Salvador and Guatemala, describing the methodology and presenting the results. Section 4 describes the relationship between international remittances with foreign aid. Section 5 proposes policies that LDICs may follow to allow economic institutions to flourish and direct remittances towards economic development. The conclusion summarizes.

1. The Austrian Theory of Economic Growth

The Basics of Action and a Monetary Economy

The Austrian school of economics distinguishes itself from other schools of thought by its thoroughgoing subjectivism. Although other schools of thought may pay lip service to the subjective theory of value and marginal utility, it is the Austrian school that fully embraces its implications. Below is the exposition of the Austrian theory of growth as outlined by Dr. Shawn Ritenour's book *The Economics of Prosperity: Rethinking Economic Growth and Development*.

Economics exists within the broader science of praxeology, or the pure logic of human action. Action is seen as the striving towards fulfilling ends using means according to ideas. The implication from this statement is that man is confined to a world of scarcity where the means available are finite relative to the ends he desires to achieve. A "felt uneasiness" plagues him; he constructs a plan with the expectation that by using an economic good such as a fish, he can fulfill his most valued end such as alleviating his hunger. His volition leads him towards action and "exchanging" the present state of affairs for a different state of affairs where hunger is no longer present. To increase the amount of consumption possible, man combines his labor with land, or the natural resources available at hand. To gather more fish, he constructs a spear, a capital good, using rock and wood. But before this can take place, man must sacrifice present consumption and save. He stores some fish (assuming away the problem of spoilage for

simplicity) to maintain him during the production of the spear. His saving in the form of fish is invested into the spear, allowing him to gather more fish than before. All the while, man is acting through time, with a starting point and an ending point in which action takes place. He is giving up present consumption to engage in production that leads to a greater amount of consumption in the future. His propensity to save and invest over consume is dictated by his *time preference*. Note also that implicit in any action is the error of expectations and the failure to achieve his plan. Success earns the man a *psychic profit* while failure engenders a *psychic loss*. Man works under uncertainty, or the inability to predict the future with complete accuracy. Through the imaginary construct of an isolated man, a thought experiment, these basic economic principles can be extrapolated.

As the analysis deepens and approaches that of the real world, multiple individuals are added to the scene. Isolated man exists no more; he is now free to exchange goods and services with other actors to the (expected) mutual benefit of both. As exchange becomes more rampant, money, or a general medium of exchange, becomes necessary to avoid the double coincidence of wants and allow for economic calculation. Economic calculation is what allows heterogenous consumption and production goods to be assessed in the same monetary unit throughout greater lengths of time. And the introduction of money is what allows income to be allocated not just to consumption and savings/investment, but also in the form of cash holding as a hedge against uncertainty. Money becomes half of all monetary exchanges, acceptable by the general populace. The monetary unity of assets becomes money capital and the ability to engage in arithmetic and compare the costs of different plans is now possible through prices. Economics as it is defined today is thus the narrowing of praxeology to the confines of monetary calculation.

The Five Components of Economic Development

Economic development depends on five main characteristics (Ritenour 2023, 29-30). The first is a highly developed division of labor where factors of production, whether in the form of labor, land, or capital, specialize in some line of production according to efficiency, or the minimization of costs. According to the law of association, each factor has a comparative advantage in some line relative to other factors. Even if a doctor can produce more shoes than a shoemaker over the same number of hours, it is still more efficient to hire a shoemaker to make his shoes so that he can focus on the more profitable endeavor of alleviating physical afflictions. The other side of the coin of the division of labor (Ritenour 2023, 85) is the second component, a multi-stage capital structure. Lower societal time preferences allow economic savings to accumulate and be invested into the production of more and better capital goods. These capital goods vary in their specificity in different lines of production, as well as their durability throughout time. Savings must be used to maintain and accumulate capital or risk consuming them.

The third component, advanced technology, refers to the idea, or the recipe, that an actor uses to apply the means to the fulfillment of the end. This is where science allows for the invention of new technology which is then embodied in the form of physical capital goods (Ritenour 2023, 90). Investment expenditure must be directed toward the research and development of technology. The fourth component, wise entrepreneurship, requires entrepreneurs to bear the uncertainty of the success or failure of production plans; they employ society's scarce factors via the division of labor and capital structure towards the fulfillment of consumer demands for the attainment of monetary profits and avoidance of monetary losses. Finally, private property is what allows all of this to happen. Economic exchange can only occur

there is a clear distinction between what goods belong to person A and which ones belong to person B. Only if individuals are secure in their property rights can they expect to mutually benefit from exchange. Only through exchange are monetary prices allowed to come out about, and only through prices do actors have the incentive to increase production from their own increase in wealth and income.

Alternative Theories of Growth

Implied in this exposition of economic nature is that it is theory that is pivotal towards the understanding of complex phenomena. Beginning from first principles and adding empirical assumptions to get closer towards today's world, the entirety of economic theory is deduced. If the premises are true and the reasoning is sound, then the theory is necessarily true and applicable where the assumptions are present. This contrasts with contemporary economics dominated by scientism, or the attempt to analyze economics and the social sciences with the same methodology as that of the physical sciences. Man is treated as a rock or a planet, powerless to do anything but cater to the laws of nature, such as the law of gravity. The economy is analyzed through the lens of equilibrium states, assuming perfect knowledge, perfect substitutability of capital, the absence of time, and other unrealistic premises. Economic law is beholden to "experimentation" that may hold in some circumstances but not in others while complex mathematical equations implying the existence of numeral constants and meaningful aggregations are common. Regardless of the specific form of scientism, all these approaches are built on a foundation of sand. Today alternative schools claim it is a "mystery" how poor countries ascend to better material standards of living. To the extent that they try to explain the connection, their faulty methodology muddles their thinking and prevents them from reaching the correct conclusions and thus the correct policies, which will be discussed later.

2. A Taxonomy of Remittances

Remittances and their Motives

Remittances refer to the household income received from abroad, oftentimes due to the international migration of laborers (Yang 2011). These *international* remittances will be the focus of this paper as opposed to *internal* remittances within the same country (Brown et al. 2014, 1254). Usually, a family member such as the father of the household migrants to another country in the pursuit of job opportunities and higher income. A portion of this money is sent back to their country of origin as income to their household.

There are various reasons for the sending of remittances among migrant populations (Yang 2011, 135-140). One such reason is altruism. It is the intention of the recipient to increase the average level of consumption of recipients and thus their standard of living, as is the case of a father and his household. For countries vulnerable to certain threats such as natural disasters or economic crises, remittances are sent as a source of relief and insurance such as for technological improvements that increase resilience or the maintenance of existing spending patterns. Rural economies are particularly sensitive to storms, floods, droughts, and other weather shocks. It has been found that remittances account for 20-25% of the expenditures used to rebuild after hurricanes in poor countries (Yang 2011, 140). Investment, whether in human capital such as education or on physical capital to expand production, is a common possibility. Tied to migration, remittances can pay for education in the home country or pay down debts from the cost of moving. They can be payment for the management of assets in the home country.

The Forms of Remittances

There are two general categories of remittances to consider: cash remittances and in-kind remittances. Cash remittances are transferred through formal and informal channels. Formal institutions include money transfer/transmission operators (MTOs) and banks. Common examples of MTOs are companies like Western Union and MoneyGram (Yang 2011, 132). Working alongside MTOs are banks and credit unions that provide transfer services between sender and receiver countries. Informal institutions are operated by nonfinancial firms or brokers with a physical presence in remittance-sending migrant enclaves and in remittance-receiving migrant home countries (Yang 2011, 132). In South Asia, *hawala* and *hundi* are used as informal systems while *padala* is present in the Philippines.

Meanwhile, in-kind remittances come in the form of goods. They could include anything from household appliances, food, clothing, electronic devices, vehicles, construction materials, tools, machinery, hand-carried items from migration visits, direct payments towards the payments of utilities, or any other goods.

Measuring Remittances and the Numbers

One key way in which remittance data is gathered is through the generation of surveys. The problem with survey questions is that they primarily ask about financial transfers while ignoring in-kind remittances and other indirect forms of payment. It is possible that these remittances may be a significant portion of total remittances sent and thus lead to misleading conclusions (Brown et al. 2014, 1244-1245). When it comes to analyzing remittance amounts in some regions such as Africa, it is acknowledged that the amount of food remittances sent and received across international borders are outside market channels and through families (Crush

and Caesar 2017). It must be remembered that a significant number of total remittances is not seen in the official statistics when considering the informal institutions previously mentioned. Hand-carried cash and in-kind remittances are also underrepresented and hard to measure aside from survey questions.

There are other significant limitations to surveys aside from their inability to measure physical remittances (Brown et al. 2014). Participants are often unable to recall the amounts sent, especially over long periods of recall. Annual recall proves a challenge when remittances are seen to vary in their frequency and amount of payment. Additionally, there is an element of sensitivity bias when individuals are reluctant to report the amounts sent accurately. For example, they may perceive that the information on the amounts they send could be handed over to the government, thus influencing their desire to report accurate information. Media coverage tying remittances to tax evasion or fraud may encourage them to underreport information. These biases and inabilities to account for all remittances plague surveys and limit their accuracy. It is seen that recipient surveys undercount the number of remittances by about 23-25% on average (De Arcangelis et al. 2023, 2). Meanwhile, migrant-reported remittances are only 6% lower than the records kept by MTOs.

These limitations aside, surveys give us the record of cash transfers alongside data from MTOs (De Arcangelis et al. 2023). Officially, the World Bank measured the total number of international remittances in 2019 to be $548 billion, exceeding 2019's foreign aid of $152 billion for the year (De Arcangelis et al. 2023, 1). In 2010, the top recipients of remittances in dollar terms were India at $55 billion and China at $51 billion. Mexico received $22.6 billion while the Philippines received $21.3 billion. When recording the numbers as a share of GDP based on 2009 data, it is small population-countries but large migrant flows that make up the top receivers.

35% of Tajikistan's GDP relied on remittances followed by Tonga at 28%, Lesotho at 25%, Moldova at 23%, and Nepal at 23% (Yang 2011, 133).

3. Economic Progress(?) and Remittances – El Salvador and Guatemala

Based on the theory of growth outlined above, a comparative case study will be conducted to derive any influence economic institutions may have by channeling economic remittances towards economic development. El Salvador and Guatemala were selected because they are among the most remittance-dependent economies in Latin America while also being highly similar in non-institutional dimensions. These dimensions include their geographic proximity, their shared regional and colonial history, cultural and linguistic similarities. Over the years, they have differed meaningfully, but not drastically, in their levels of economic freedom according to the Fraser Institute's Economic Freedom of the World Index. A quasi-controlled comparison in which cultural, geographic, and historical factors are held constant while allowing for institutional differences to remain. The aim is to isolate institutional variation as the primary explanatory factor for channeling remittances towards economic development.

As a quick summary, the theory of economic growth relies on the division of labor, capital structure, entrepreneurship, secure private property, and technology for development. Remittances are thus not inherently growth-enhancing but are dependent on institutions that allow remittances to be transformed into productive capital rather than used primarily for consumption purposes. Institutions such as private property rights, sound money, low regulatory burdens, and limited state intervention are therefore expected to channel remittances toward investment, innovation, and productivity.

Measurement and Variable Selection

Regressions will be conducted to analyze whether economic institutions influence whether or not remittances contribute to economic development. Economic institutions are proxied using the Fraser Institute's Economic Freedom of the World Index. The index is grounded in the understanding that free markets lead towards economic growth, the date is widely used in academic literature, and it allows for the comparison of multiple countries throughout time. The overall "Economic Freedom Score" is used for simplification, encompassing indicators of market institutions such as size of government, the legal systems and property rights, sound money, the freedom to trade internationally, and regulation.

Remittances are measured as remittance inflows as a percentage of GDP, sourced from the World Bank for each country ranging from 1990-2020. Expressing remittances as a percentage of GDP allows comparison across countries and across time while controlling differences in economic size. The importance of remittance inflows to each economy is captured rather than their absolute value in dollar terms and is used to assess how they interact with various institutions.

Several economic indicators will be used for comparative analysis. Per-capita measures and percentages of GDP were used to control as much as possible for population and economic size while aligning with a different component of growth. GDP per worker will be used to measure changes in labor productivity, reflecting the deepening of the capital structure and economic development. R&D expenditure as a % of GDP will serve as an additional proxy for capital structure deepening and technological investment as more stages are added to production and investment for the improvement of quality.

Regressions

Three different regressions will be used for each country. Baseline regressions will be used first to estimate the independent relationships of remittances and institutions with GDP per worker:

$$GDP_{worker} = \beta_0 + \beta_{1(Remittances)} + \beta_{2(Economic\ Freedom)}.$$

Then, interaction regressions use a multiplicative term between remittances and economic freedom to test whether institutions condition productivity effects of remittances:

$$GDP_{worker} = \beta_0 + \beta_{1(Remittances)} + \beta_{2(Economic\ Freedom)} + \beta_{3(Remittances\ x\ Economic\ Freedom)}.$$

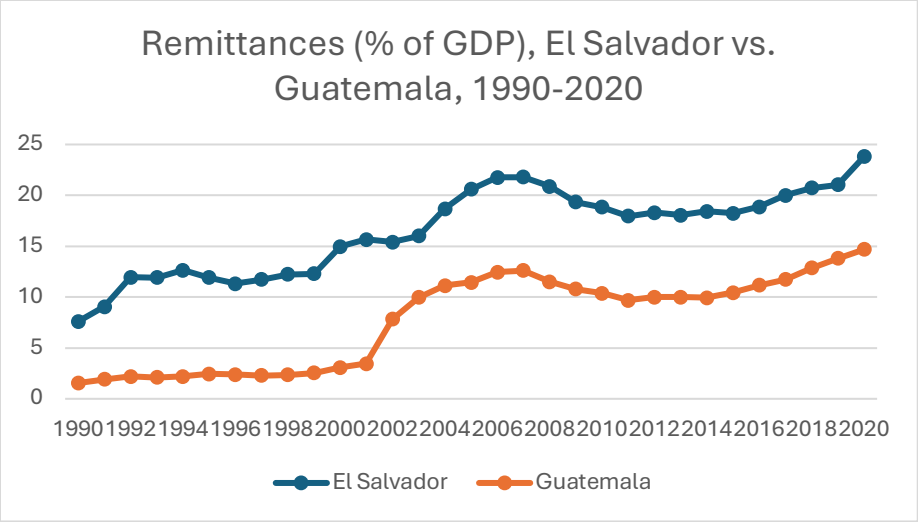
Finally, a regression is used to analyze if remittances are used for capital formation measured by R&D expenditure under each institutional environment:

$$R\&D = \beta_0 + \beta_{1(Remittances)} + \beta_{2(Economic\ Freedom)} + \beta_{3(Remittances\ x\ Economic\ Freedom)}.$$

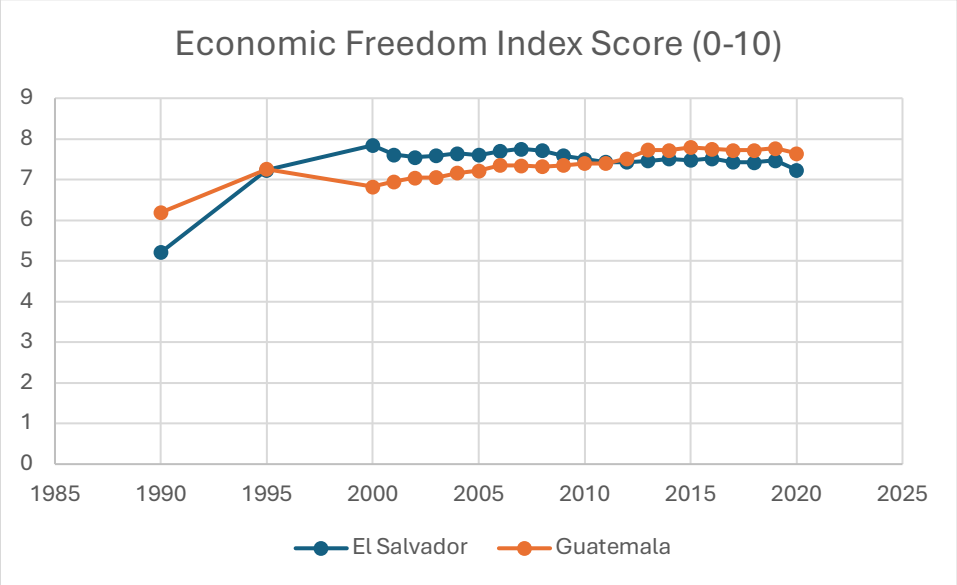
Time-Series Graphs

Below are visuals for the dependence of El Salvador and Guatemala on remittances over time along with their economic freedom scores beginning in 1990 up to 2020.

1. Time-series of remittances (% of GDP) for both countries



2. Time-series of the Economic Freedom Index for both countries



Regression Tables

Table 1. El Salvador

Dependent Variables:

(1) GDP per worker

(2) GDP per worker with Interaction

(3) R&D expenditure (% of GDP)

Variable	**(1) GDP/Worker**	**(2) GDP/Worker + Interaction**	**(3) R&D (% GDP)**
Remittances (% GDP)	273.403***	–932.766	0.0127
	(83.792)	(3,240.448)	(0.620)
Economic Freedom	–4,779.615***	–7,981.160	–0.047
	(1,403.621)	(8,717.626)	(1.827)
Remittances × Economic Freedom	—	159.229	0.00066
	—	(427.630)	(0.084)
Constant	53,721.510***	77,981.935	0.118
	(11,154.358)	(66,149.452)	(13.568)
Observations	21	21	14
R^2	0.634	0.637	0.381

Standard Errors: parentheses

*** = $p < 0.01$

** = $p < 0.05$

* = $p < 0.10$

Table 2. Guatemala

Dependent Variables:

(1) GDP per worker

(2) GDP per worker with Interaction

(3) R&D expenditure (% of GDP)

Variable	**(1) GDP/Worker**	**(2) GDP/Worker + Interaction**	**(3) R&D (% GDP)**
Remittances (% GDP)	93.949	–4,647.762***	0.1444**
	(88.093)	(1,192.045)	(0.0489)
Economic Freedom	3,897.068***	–2,947.431	0.1387*
	(833.095)	(1,825.360)	(0.0724)
Remittances × Economic Freedom	—	665.291***	–0.0187**
	—	(167.001)	(0.0064)
Constant	–2,443.971	45,958.304***	–1.0387
	(5,617.905)	(12,841.463)	(0.5524)
Observations	21	21	14
R^2	0.745	0.868	0.914

Standard Errors: parentheses

*** = p < 0.01

** = p < 0.05

* = p < 0.10

Interpretations

1. El Salvador

Based on regression 1, higher remittance inflows are highly significant toward a larger GDP per worker. This suggests that remittances help support economic activity and productivity. But economic freedom has a negative but significant association with increased productivity. This could reflect institutional rigidity, preventing productivity gains.

With regression 2, the interaction between remittances and economic freedom is insignificant towards productivity effects in El Salvador. This suggests economic freedom does not affect how remittances are used in the economy.

With regression 3, we see that remittances are not associated with higher R&D expenditure in El Salvador irrespective of institutional quality. This indicates that remittance inflows are not being directed towards investment but are instead being used for consumption.

Overall, higher remittance inflows are correlated with higher productivity only in the baseline model. Institutions do not seem to affect this relationship nor contribute to capital formation, suggesting remittances are primarily used for consumption.

2. Guatemala

Based on regression 1, higher remittance inflows appear insignificant with GDP per worker gains. On the other hand, economic freedom is positive and highly significant towards productivity increases, suggesting it is institutions like secure property rights that determine productivity gains.

With regression 2, it is seen that remittances alone are negative and significant towards growth while economic freedom is seen as insignificant. This suggests that remittances on their own can reduce productivity when institutions are weak. However, with the interaction term considered, the connection with productivity is seen as positive and highly significant. This suggests higher economic freedom allows remittances to enhance growth, *activating* production.

With regression 3, remittances and the interaction term are all seen as significant toward increased R&D expenditure, although the significance is only marginal for economic freedom alone. This suggests that when institutions strengthen, remittances are redirected toward investment in the capital structure rather than consumed.

Overall, Guatemala's institutions can be said to play a decisive role in shaping the economic impact of remittances. Remittance alone are insufficient, and perhaps even harmful, toward productivity. However, when combined with stronger market institutions, remittances contribute to both higher productivity and increased investment in R&D. This supports institutional theories of growth and the importance of economic freedom in transforming income inflows into development.

The regression results indicate that remittances do not uniformly contribute to economic development. In El Salvador, remittances associate with productivity only in the baseline model and show no evidence of being channeled into productive investment once institutional interactions are considered. Although the country's economic freedom score varies over time, it could be that the changes are not sufficiently large enough nor concentrated in the dimensions most relevant towards remittance allocates. The regression thus does not detect a systematic relationship between institutional changes, remittances, and capital formation In Guatemala, by contrast, economic freedom significantly conditions the impact of remittances: remittances are

associated with higher productivity and increased R&D expenditure only when supported by stronger market institutions. These findings suggest that institutional quality matters on the margin in determining whether remittance inflows are transformed into productive capital.

4. The Relationship Between Remittances and Foreign Aid

Thus far, it has been found that foreign aid and remittances are mostly negatively related serving as substitutes (Abbas et al. 2020, 22-23). When a country receives foreign aid, the number of remittances decreases, likely because households view the increased foreign aid as offsetting the need to support their families through private remittances. The perception is that welfare programs will provide financial aid. Where countries are weak in governance and dependent on aid, the amount channeled towards investment falls specifically while the component aimed at consumption remains constant. But the indirect effects of foreign aid are more varied. Where foreign aid in least developed countries (LDCs) is used for the improvement of human capital such as improvement in education or allowing for foreign relocation of workers, the number of remittances increases. Limited domestic absorption of skilled labor means improvements of human capital facilitate migration who then continue remittance spending. In developing countries, however, the improved human capital is more likely to be absorbed in the domestic economy or lead to the permanence of migration. Remittance flows thus cease.

5. Policy Prescriptions

With these considerations in mind, economists and political leaders eager to aid the developing world in their quest towards economic development must understand the nature of economic development first. This requires understanding the market as a process where

entrepreneurs allocate scarce factors of production towards those goods most desired by consumers within a setting of constant change and uncertainty. It requires understanding the role that institutions play in the rise of a nation from poverty to prosperity. It must be recognized that though these institutions do not *guarantee* economic growth, they are nonetheless *necessary* for it. As has been show, foreign aid even under "good" institutions does not avail much (Ritenour 2023, 199). On the contrary, they are correlated with economic regress. But remittances, unlike government foreign aid, are by nature a voluntary exchange of money or goods from one party to another for the benefit of both parties. As such, it is not remittances *per se* that may be said to lead to economic regress by some of the literature. Rather, institutions are a decisive factor that determine to what ends these remittances are channeled, particularly via their influence on societal time preferences and subsequent savings and investment over consumption spending. An increase in consumption spending is not inherently bad; in fact, the aim of all productive activity is the ability to enjoy more and better consumer goods. Consumption is necessary to support laborers and entrepreneurs throughout the production process. Nonetheless, capital consumption is always a possibility; the funds to maintain existing capital goods may not be there, let alone accumulation. The result is gradual wear and tear and a decrease in the amount and quality of consumer goods available for society.

Securing Private property and Deregulation

To that end, the priority of governments must be to implement and foster the development of market institutions, most fundamentally, private property rights. In environments with insecure property rights, there is a fear over the possibility of confiscation. Society is less likely to save their income knowing governments or politicians can get their hands on it; the amount of savings available for use by entrepreneurs to invest is decreased, along with their

incentive to engage in production in the first place (Ritenour 2023, 84). The result is decreased productivity, output, and real incomes. Private property must be secured via "purpose independent law" rejecting the initiation of violence against peaceful peoples and property (Ritenour 2023, 170). This law is not to favor some parties over others as is the case in "cronyism" where government and its private sector connections benefit at the expense of everyone else (Ritenour 2023, 205). This law must be universal.

Regulations hindering the blossoming of the entrepreneurial spirit must be reduced. As a counterfactual, regulations reduce the incentive of actors to engage in entrepreneurial activity aimed at job creation and increased productivity as additional costs to overcome.

Reductions in Government Spending and Taxation

It must be remembered that a rise in total investment spending is not the goal. It does not necessarily imply the lengthening and widening of the capital structure towards the production of consumer goods valued by society. When measured in the aggregate, this also includes higher spending due to monetary inflation and government spending, irrespective of the decrease in the purchasing power of money and the malinvestments inherent in government spending in the economy (Ritenour 2023, 83). Issues with money will be dealt with later. For now, the focus will be on government spending. The government, or more specifically, the state, is the only institution that generates monetary revenues via coercive taxation (Rothbard 1997, 69). It is inherently non-neutral to market activity given that the market is built on voluntary exchange. As such, government spending, even for the "public benefit" does not reflect the genuine demands of consumers. Political actors, working outside the market's profit and loss system, possess neither the ability nor the incentive to allocate societal resources confiscated via taxation towards those production processes that will maximize societal wealth.

Working outside of entrepreneurial monetary calculation, they are unable to appraise the future constellation of consumer/producer goods prices by combining historical prices with their own judgement. Neither are they worried about maximizing revenues while minimizing losses due to the guarantee of their own incomes. Investment spending aimed at improving economic conditions only leads to malinvestments, or investments in the wrong production processes. They necessarily crowd out private investment by confiscating resources that would have otherwise remained in the market. A project's failure may continue even if there are clear financial losses in the books so long as it fulfills the ambitions of political actors. In LMICs where capital is already scarce, efforts should be made to reduce levels of government spending and taxation as much as possible.

In sum, any income coming into the LMICs should be used as much as possible towards the development of the nations' capital structures. The institution of private property is at the forefront of the lowering of time preferences and the allocation of remittances towards savings and investment (Mulligan 2007, 46). As such, individuals should be sure that remittances will not be confiscated by government actors or private criminals in the form of a zero-sum game. When confiscated by the state, the possibility of channeling remittances towards unsustainable production projects or simple government favoritism must be avoided. Recipients must be unshackled by the restraints against entrepreneurial activity in the form of regulation. LMICs must work on shrinking their governments and liberalizing their markets for long-term economic development.

Conclusion

The aim of this paper was to make a marginal contribution to clarifying the role that institutions play in the channeling of international remittances towards economic development in

LMICs. While economists have for the most part attempted to analyze the role of remittances on economic outcomes, i.e., the encouragement of consumption and a reduction in the workforce or an increase in investments, etc., not much attempt has been made to study whether the institutional arrangements of recipient countries play a considerable role in this allocation. Even more, where institutional analysis is done, it has not been within the perspective of an Austrian theory of growth. Contemporary economics would make much breakthrough in their analysis of remittances by first understanding the nature of the market process itself and economic development. Armed with faulty theory and methodology, the mainstream is not equipped to form casual links between the roles of institutions,

Ultimately, the proper allocation of remittances depends on the subjective evaluations and expectations of individuals. It is not inherently "bad" if individuals began to discount the future more heavily, time preferences rose, and consumption was favored over investment in expanding the structure of production. Nonetheless, insofar as actors prefer more and better consumer goods in the future, then institutions are crucial in guiding scarce resources to that end. Institutions can channel remittances, increasingly large components of the GDP of LCIMs, on the margin, in "upgrading" these countries towards upper-middle-income countries (UMICs).

The two countries analyzed, although there was a difference in institutions, the difference was only a moderate one. If other LMICs had more data availability over long periods, it would be fruitful to investigate in favor of institutional and other statistical variety.

Institutions analyzed need not be limited to those categorized as "economic" in the narrow sense. The role that religious institutions such as Christian churches and family structures such as the extended family play in influencing the outcome of remittance transfers should be studied as well. These cultural institutions narrow the scope of outcomes that individuals are

likely to perform, restricted by the pressures of morality and societal norms. Recent work on the Austrian theory of gifts can be integrated with these cultural institutions insofar as motivations are altruistic and remittances gratuitous (Hulsmann 2024). Moral hazard that may emerge may be minimized. More variation is necessary to further test the thesis presented; Asia and Africa contain a plethora of LMICs to analyze, although limitations on remittance data, economic indices, and economic metrics across time should be acknowledged.

De-aggregation of components of the Fraser Economic Freedom Index should be performed to test which component has the biggest correlation on economic growth and remittances such as "Regulations." A certain component may raise the economic freedom score of a country while being not as influential towards re-directing remittances towards investment. Austrian criticisms of economic indicators such as GDP should be acknowledged; followers of the school such as historian Robert Higgs or economist Mark Skousen have proposed their own measures, such as the former's Real Private Product, that accounts for inflation and removes government expenditure from GDP, both of which would normally appear positively in GDP figures. When analyzing R&D expenditure per country for example, it is helpful to remove the portion attributable to government expenditure which does not reflect consumer preferences and squanders scarce resources. Once again, this must be done given constraints in data.

As troubling and limited as economic metrics may be, nonetheless, the hope of the present author is to invite further research into the connection between market institutions via economic freedom, the impact of remittances, and economic development.

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