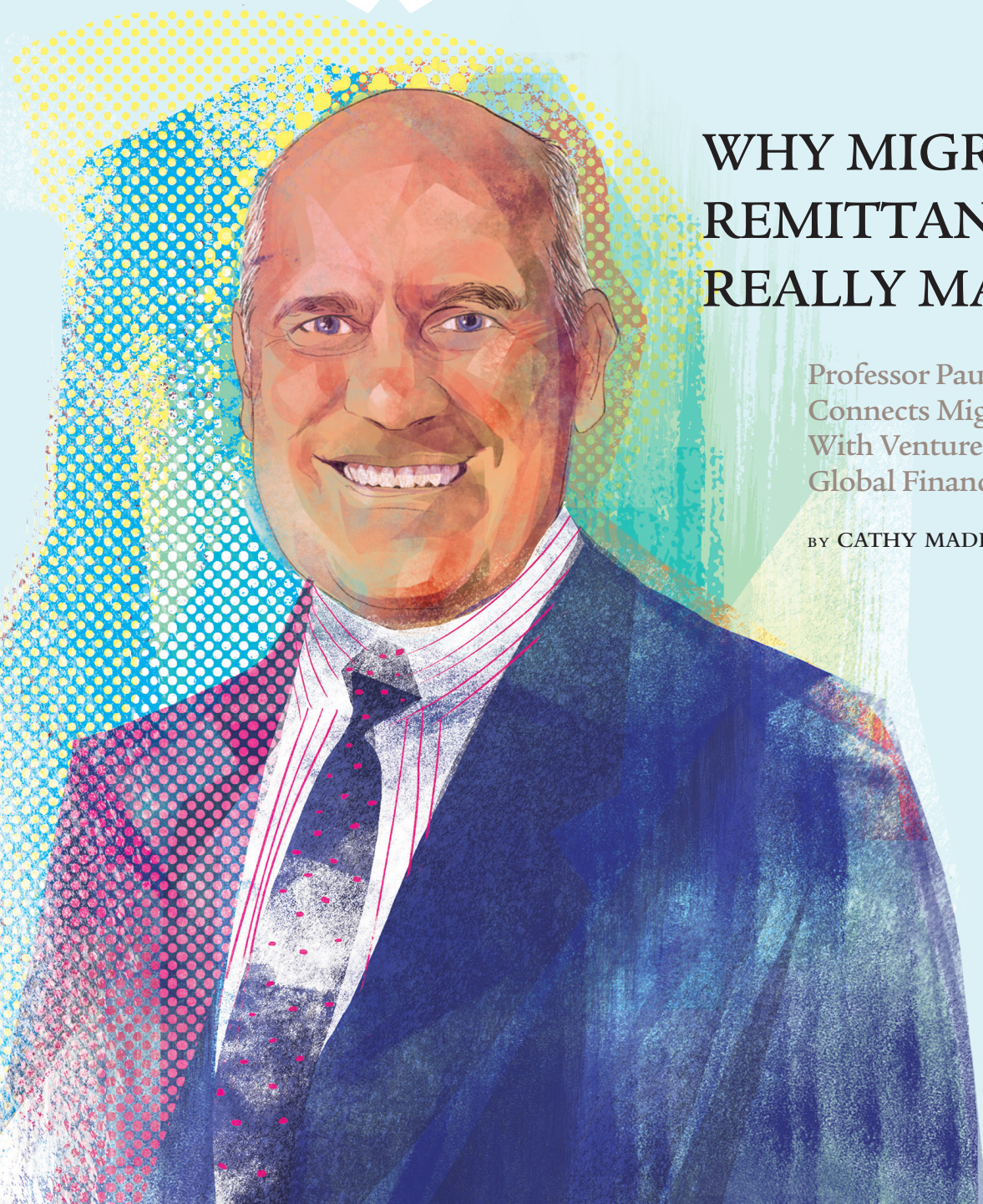




THEORY *at* WORK



WHY MIGRANT REMITTANCES REALLY MATTER

Professor Paul Vaaler
Connects Migrant Wages
With Venture Capital,
Global Finance

BY CATHY MADISON

Illustration: John Jay Cabouay

The pandemic shaved two months off Professor **Paul Vaaler's** year in South Africa, but it failed to dampen his enthusiasm for his favorite topic. Vaaler was living and working in Johannesburg on a Fulbright scholarship when, in mid-March, he got 48 hours' notice to catch the last plane out of the country before travel bans took effect. Back home in Minneapolis, he is now treating law and business students to his burgeoning expertise on migrant remittances, which he calls "the best economic development strategy in the world."

As the inaugural holder of the John and Bruce Mooty Chair in Law and Business, Vaaler serves both the Carlson School of Management, where he earned a Ph.D., and the Law School. He was born at University Hospitals and raised nearby, but his diverse career, encompassing both private practice and academia, has forged a formidable global perspective. Since graduate school days at Oxford and Harvard, he has embraced international issues.

"I really enjoy understanding how people, money, and ideas flow, especially through developing countries, where the rules aren't clear," he says. When the Cold War ended and the Berlin Wall fell in 1991, the West began "essentially imposing on former communist or military-run countries the need to privatize, liberalize trade, and deregulate protective industries. They were saying, 'If you do those things, we'll give you money. If you don't, you'll be in trouble,'" he explains. But what would this mean for aid-hungry governments? Would unstable regimes discourage foreign investors? What about the growing number of migrants?

Vaaler was intrigued by the legal and business questions these issues raised. Today more than 250 million people live and work outside their home countries, boosting the economies of their host countries while also sending money home to developing countries. These remittances—\$500 billion last year—far outstrip foreign investment or foreign aid and are "significant, substantial, and the most important source of venture capital," Vaaler notes. "If that's the way that healthy countries grow, then we need to understand and promote it."

Remittances are often small sums sent through an informal system called hawala, loosely translated as "transfer and trust," which is often easier to use than other formal systems running through banks or money-transfer companies like Western Union. Migrant workers hand over money to hawaladars, agents with contacts who can arrange equivalent transfers in the workers' home countries. While these remittances often feed and house

family members, they also fund startups and small businesses. A truck bought to ferry farm produce, for example, could also be used to start a taxi service.

Vaaler studied this transnational phenomenon up close in South Africa, where money, ideas, and people flow freely across porous borders, and shared his observations with local academic, finance, and civil society groups. "Paul did some of the earliest research on the correlation between remittances and investments. It is cited both on the academic side and, more importantly, on the practitioner side, where it has a wide variety of applications," says Paul Clyde, president of the William Davidson Institute and professor at the University of Michigan's Ross School of Business. He and Vaaler are collaborating on a UN proposal designed to train business and government regulators to leverage remittances for an even greater impact in developing economies.

Michael E. Cummings, assistant professor at the University of Arkansas Walton College of Business, has worked with Vaaler since becoming his research assistant at the Carlson School in 2011. "We've focused on the big-picture, hot-button issues of the day—international migration, government policy, entrepreneurship, economic growth and development. He's a good example of someone who approaches research not just as a scholar, but also from the perspective of what makes a difference," says Cummings.

Migrant remittance issues find their way into courtrooms, where Vaaler has been an expert witness, as well as classrooms. "Lawyers advise intermediary businesses about how to move money quickly, cheaply, and effectively for migrants, but also transparently and legitimately for regulators," he explains. Meanwhile, research opportunities abound. Vaaler is exploring how remittances from longterm migrants are used differently from those sent by newly-arrived workers, and how migrant men and women differ in remitting approaches. Women remit less per transaction but keep remitting years after men stop. Migrant women may prove more important for the investment environment of their home countries.

Vaaler is lauded by his colleagues for being "a delight to work with," notes Clyde, and effusively embracing all ideas at first, yet setting a high bar for precision. "He gave me courage and confidence," adds Cummings. Clearly, Vaaler, who is excited to be back on campus despite the pandemic, loves his job: "Service, research, teaching—all in one. It's pretty exotic." ■■■

Cathy Madison is a Twin Cities-based writer.