Non-technical Summary

Sending money home before World War I was not much more complicated than today. Indeed, the business of international money transfer developed rapidly during the second half of the nineteenth century, to meet the growing demand from transatlantic migrants. The vast amounts of money transferred as a counterpart to the mass migration phenomenon in this period contributed to the development and penetration of financial services in host and sending countries. Concentrating on the latter, we study a sample of emerging economies in the European periphery, characterised by large emigration flows. Our results imply that remittances had a significant impact on financial development, measured as the ratio between total deposits in the banking system and GDP. We also find that migrants’ transfers over the period 1870-1913 were more relevant in promoting the domestic financial sector than other international capital flows. This positive influence of emigrants’ remittances can be explained through a triple process of institutionalization, densification, and “bankarization.”

At the beginning of the mass migration period (c.1870-1913), most migrants used informal transfer channels. But as the number of migrants increased, a growing demand for official transaction means emerged. As a result, new actors appeared on the remittance market, giving rise to a gradual process of “institutionalization”, that is, the implementation of a structured network of financial intermediaries. At the same time, financial institutions began to open more branches and to offer more services, which contributed to the “densification” of the European financial sector. New banks appeared to answer the growing demand for money transfers and to attract returnees’ savings. Remittances also helped many families to gain access to banking services, thereby accelerating the “bankarization” process in European countries. The need for faster and safer international transfer channels increased the demand for account-to-account transfers, and consequently for deposit accounts both in sending and receiving countries. In addition, the recipients’ ability to save part of their remittances, as well as the increasing number of returnees, favoured the development of savings accounts. Financial institutions adapted to this new clientele by offering attractive interest rates and, as a result, the number of account owners significantly increased.
Compared with recent findings, our results imply that the contribution of remittances to financial development was higher in pre-1914 Europe than in today’s developing countries. This can probably be attributed to the lower starting levels of development in the historical sample. However, the potential for positive spillovers from migration to financial development could still be enhanced in present-day developing economies through the adoption of policies aiming to promote financial democracy. In particular policies that facilitate the access to bank services, provide information about the remittance market, and guarantee the transparency of the financial system could act as catalysts.

*JEL Classification:* F24, N13, O16

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