Migration vs. development?
The case of poverty and inequality in Mexico

AGUSTÍN ESCOBAR LATAPÍ *

Abstract
Although the migration – development nexus is widely recognized as a complex one, it is generally thought that there is a relationship between poverty and emigration, and that remittances lessen inequality. On the basis of Latin American and Mexican data, this chapter intends to show that for Mexico, the exchange of migrants for remittances is among the lowest in Latin America, that extreme poor Mexicans don’t migrate although the moderately poor do, that remittances have a small, non-significant impact on the most widely used inequality index of all households and a very large one on the inequality index of remittance-receiving households, and finally that, to Mexican households, the opportunity cost of international migration is higher than remittance income. In summary, there is a relationship between poverty and migration (and vice versa), but this relationship is far from linear, and in some respects may be a perverse one for Mexico and for Mexican households.

Keywords: Migration, remittances, inequality, poverty, Mexico.

Introduction
The Mexican government and the public remained fundamentally indifferent to international migration until recently, in spite of the fact that emigration absorbed 30% of Mexico’s population growth. There are several reasons behind this. First, from 1964 to the late 1990’s, international emigration was lower and largely a rural phenomenon. Second, Mexico-US migration seemed harmless. In terms of public perception, some migrants won and some lost, some stayed and some returned, some remitted large amounts to their families and some did not, but it was hard to find a systematic relationship between migration and national development, other than the fact that, with more and better job opportunities in Mexico, people would stay. In other words, to both the government and the public, the relationship of migration to development was largely neutral, or in any case it was a one-way relationship, going from (insufficient) development in Mexico to (modest levels of harmless) emigration.

In this paper, I argue that the neglect of migration policy in Mexico is mistaken. The migration – development nexus is becoming more perverse in Mexico. The numbers are large, family incomes are lower, and there are negative impacts on the Mexican labour force and economy.

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Current migration and its nexus to development
Mexico – U.S. migration slowed considerably with the 2008-09 global recession. The total number of Mexican-born in the U.S. has not increased since 2007, so that, from an average net emigration of approximately 560,000 between 2000 and 2005, net Mexico-US migration fell to zero between 2007 and 2010.

Until 2007, however, the volume of Mexico-US migration was large. Approximately 40% of Mexico’s labour force growth was exported every year, and by 2007 about 18% of Mexico’s total labour force worked in the U.S.

Positive and perverse scenarios
Positive scenarios enable migration to foster development through two main channels: remittances and returns. Remittances (and savings) may contribute to development in various ways, as when migrants have learned new skills and are able to practice and develop them upon their return.

But while furthering development through entrepreneurship, new jobs and economic activities, remittances also affect poverty and inequality. Lowering poverty and inequality is itself a component of development, but can have an impact on economic growth through the creation of markets and jobs at the bottom of the economic and social structure. Remittances, usually analysed as a positive financial inflow akin to those derived from exports, in fact differ from them for three reasons. First, most remittances are sent to families, not firms. Second, remittances are mostly used for subsistence, not production. Third, remittances imply the export of labour as opposed to goods and services. Because remittances are mostly sent to families, they are usually analysed as part of income of households, not firms.

Inter-government institutions and initiatives such as the Berne Initiative, the World Bank, the Inter-American Development Bank, the GCIM, the Puebla process and others, find that most remittances are directed at poor households. Since remittances are treated as net income, analysts conclude that remittances increase the income of the poor, reduce inequality and promote development. According to this argument, remittances must be protected because they are private transactions, the poor depend on them to survive, and they reduce poverty and inequality.

Remittances are sometimes compared with Official Development Assistance. However, such comparison ignores the fact that remittances are paid for with labour power. The Organization for Economic Cooperation and Development (OECD, 2008) recently concluded that lowest-income countries export mostly high-skilled labour, while middle–income labour countries export mostly low–skill workers. High-skill workers tend to migrate legally, which entitles them to take their family along and significantly reduces remittances. Lower-skilled workers, on the contrary, tend to migrate illegally, leaving their families behind (at least for a certain period) and thus increasing re-
mittances. As a result, very low-income countries would seem to be investing large portions of their GDP in the training of high-skill individuals and then lose these workers in exchange for modest remittances that go mostly to more affluent families, increasing income inequality. As a result, emigration can be a perverse process that slows development through loss of skilled manpower and the capital invested in migrants’ skills.

By contrast, medium-income countries export persons in which the country has invested little, and these migrants tend to remit larger relative amounts. These remittances are significant net income for their (poor) families, reducing poverty and possibly accelerating development.

Because of its proximity to the United States, which lessens the cost of migration, and the cumulative, social-networking effect of a century of low-skill emigration, Mexico should be a medium-income country exporting low-skill workers illegally and generating relatively large remittances. As a result, poverty should diminish markedly in Mexico due to migration.

There is a rapidly growing research literature that shows modest, positive impacts of migration on development for two reasons: Total income in poor areas rises, and socio-economic indicators in high-emigration municipalities improve. This paper contributes to this literature by relating the loss in labour force to emigration to the gain in remittances.

The first part of the paper addresses the “migrant-for-remittances exchange” issue in general and its meaning for Mexico to highlight the national interest in migration and remittances. The second part examines the differential propensity to migrate according to socio-economic status, while the third tackles the question of the propensity to remit and the determinants of the amounts remitted. The fourth part asks whether remittances can be considered net positive income for the poor from the point of view of the opportunity cost of emigration and the fifth part provides an overview of recent developments and their impacts on Mexican migrants in the U.S.

The exchange of migrants for remittances

Labour migration can be analysed as an exchange of labour force for remittances. Although migration can have other benefits and costs, migration involves a loss of population in exchange for remittances (through migrants’ families). Mexico is among the three top remittance – receiving countries in the world (World Bank). After a long period of 2-digit growth rates until 2007, remittances have stagnated at $23 billion. Remittances rose much faster than the number of Mexicans in the United States - remittances rose 4.5 times between 1995 and 2005, while the Mexican-born population in the United States expanded by 71 per cent. In social terms, remittances were roughly 7 times the largest government cash transfer programme to aid the poor.

1 Growth may be overestimated because it is generally agreed that there was severe underestimation up to 1995 and that estimates improved afterwards. After 2006, the flow has ceased to...
Do migrant remittances exceed what would have been generated if the migrant stayed home? This question tackles the national interest, ignoring the fact that migrants may gain from migration by earning immigrant status abroad and unifying their families in places offering better education and more opportunities.

Table 1 shows the ratio of remittances per capita to GDP per capita in selected Latin American countries, based on an estimation of the sizes of Latin America-born populations in the United States in 2003 and per capita remittances from the United States. The base for this calculation is the entire population from a country in the United States, not just the working population, analogous to the calculation of GDP per capita, which is done on the basis of all residents, not just those gainfully employed.

**Table 1:** Latin America – Per capita remittances from the United States to GDP per capita ratios, 2003

<table>
<thead>
<tr>
<th>Receiving country</th>
<th>Remittances/GDP per capita</th>
<th>Receiving country</th>
<th>Remittances/GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haiti</td>
<td>4.22</td>
<td>Costa Rica</td>
<td>0.74</td>
</tr>
<tr>
<td>Bolivia</td>
<td>4.02</td>
<td>Jamaica</td>
<td>0.60</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.88</td>
<td>Guyana</td>
<td>0.52</td>
</tr>
<tr>
<td>Honduras</td>
<td>2.57</td>
<td>Venezuela</td>
<td>0.49</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.24</td>
<td>Argentina</td>
<td>0.40</td>
</tr>
<tr>
<td>Guatemala</td>
<td>2.17</td>
<td>Belize</td>
<td>0.39</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1.57</td>
<td>Uruguay</td>
<td>0.33</td>
</tr>
<tr>
<td>Peru</td>
<td>1.20</td>
<td>Mexico</td>
<td>0.22</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1.19</td>
<td>Trinidad &amp; Tobago</td>
<td>0.04</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>0.80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


The per capita remittance to per capita GDP ratio is a function of several factors: the GDP gap between sending and receiving countries, the human capital of the migrants, their age/sex structure and labour participation rates, their incomes abroad, their propensity to remit, and the portion of their income remitted. One could also argue that other factors come into play to define the above. First is the migration pattern itself: Legal migrants can more easily take their families with them which lowers remittances. Attachment of the migrants to their sending families / communities / partners, and their assessment of their long-term prospects at home and abroad are also key, as they influence permanent versus circular migration. Independent of the legality of migration, it is reasonable to suppose that middle class families are less...
likely to depend on remittances, and they exert less pressure on their migrating relatives, although this may not be the case.

Mexico has one of the lowest migration to remittance ratios, close to Uruguay, Trinidad and Tobago, Belize and Argentina, countries with very different migration patterns. Their migration is mostly old, legal, and higher-skilled, while Mexico’s low remittance ratio is the outcome of low skill (which determines low-income jobs), lack of documentation (and less favourable employment conditions abroad), and increasing family reunification in the United States. My conclusion is fairly simple: unless one considers the migrant population as economically redundant to Mexico (i.e., unemployed or of extremely low productivity), migration seems to be a net loss for Mexico.

Who migrates?
The second question is the differential propensity to migrate and to remit by socio-economic status. Although the poorest Mexicans do not migrate in large numbers (see below), their propensity to migrate is rising because of changes taking place in Mexican agriculture and the inability of Mexico’s urban economy to absorb them.

This relates to development because the impact of migration is different according to the socio-economic status of the migrant. Assuming both high and low-socio-economic status migrants share a propensity to remit and return, high-skill migrants may contribute to development through the creation or expansion of small modern enterprises that profit from transnational links for transfer of knowledge, social capital among business persons, and new jobs. Low-skill migrants, on the other hand, mostly contribute to development through poverty alleviation, a reduction of inequality, improvements in poor communities / neighbourhoods, and market integration of the poor. Although the relative loss of high-skill Mexicans to migration is large, the vast majority of the flow consists of low-skill persons.

According to Zenteno’s analysis using 2000 census data (2008), the poorest, most marginal municipalities show the lowest emigration rates, and there is no relationship between poverty, marginality and emigration. More recent analyses using 2010 census data show that poorest households have the lowest emigration rates. The highest emigration rates are in poor households, one level above the poorest, and migration rates decline rapidly as income rises. In sum, although the poorest of the poor do not migrate internationally, the poor do migrate at greater rates than the non-poor.

Who receives remittances?
The third question refers to the propensity to remit according to socio-economic status. There are at least two opposing forces shaping the propensity to remit and the amounts remitted. The poor tend to have the lowest skill, lowest-pay, most casual jobs in the United States, often in agriculture where wages are lower, but their families’ needs for remittances are greater. Janssen
and Escobar (2006) concluded that remittances make up a larger percentage of the total income of poor households, and their importance falls as income rises. National remittances show a more pro-poor distribution, which encourages analysts such as Carton de Grammont (2003) to stress that Mexico’s rural poor have become a nomad class, at least from the point of view of their monetary income.

A more precise assessment can be achieved, however, by an estimation of the impact of remittances on income distribution inequality expressed as the Gini index (Table 2).

Table 2: Gini coefficient, Mexican household monetary incomes, 2000 and 2002

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-remittances</td>
<td>0.5391</td>
<td>0.5113</td>
</tr>
<tr>
<td>Post-remittances</td>
<td>0.5276</td>
<td>0.5022</td>
</tr>
<tr>
<td>Δ=RS</td>
<td>0.0115</td>
<td>0.0111</td>
</tr>
<tr>
<td>Kakwani</td>
<td>-0.2144</td>
<td>-0.2739</td>
</tr>
</tbody>
</table>


Remittances reduce monetary income inequality. Since the propensity to receive remittances is higher among rural households, it could be said that inequality is also reduced by remittances. However, there is a substantial difference between 2000 and 2002, since 2002 is less unequal, and remittances, although larger, do less to reduce inequality.

In sum, the poorest among the poor migrate less but poor rural households have a higher propensity to receive remittances. The amount per receiving household grows with a household’s other income; in larger settlements it grows less than other income. Dependency on remittances is highest at the bottom of the income ladder. Higher-income households receive larger remittances, but remittances are a smaller portion of their total income. The higher propensity to receive remittances at the bottom of the income structure could be related to the circular migration pattern of the very poor. For decades, poor labourers from Southern Mexico moved to North-western Mexico and on to California agriculture before returning home in the winter. This pattern has been altered by fewer US farm jobs among Mexicans in the US and more Mexicans in year-round urban jobs.

Income inequality in a non-migration scenario

The three preceding exercises do not relate the loss in labour power to the gain from remittances. In other words, they assess what would happen if remittances stopped altogether, but say nothing of alternative sources of income for the migrants if they stayed. Do poor households show a higher tendency to receive remittances because their labour loss is higher, or is their loss lower, so that they gain more from migration than non-poor households? We now
turn to the hypothetical effect on the Mexican income structure of an alternative allocation of household labour.

Janssen and Escobar (2008) estimated the opportunity cost of migration in terms of the income the migrant would earn if he/she had stayed in the community. The variables are: sex, labour experience, schooling level, occupational strata, indigenous status, the community’s marginality level, the size of community, and each individual state.

Table 3 assesses the impact of migrants staying in Mexico. Note that the actual cost of migration (transport, illegal border crossing, and time lost searching for a job) cannot be estimated, but would reduce the net gain from migration.

**Table 3:** Gini index under three scenarios, Mexico, 2000

<table>
<thead>
<tr>
<th>(Migrant Households Only)</th>
<th>No remittances</th>
<th>Observed</th>
<th>Opportunity Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>All migrants</td>
<td>0.73</td>
<td>0.53</td>
<td>0.49</td>
</tr>
<tr>
<td>Men Only</td>
<td>0.75</td>
<td>0.52</td>
<td>0.50</td>
</tr>
</tbody>
</table>

*Source: Janssen and Escobar (2008).*

The analysis shows that remittances reduce inequality but non-migration reduces inequality even further. One additional point is that the impact of a sudden halt to remittances would be very large on remittance-receiving households, since the Gini index before remittances is extremely high. A counterfactual has limitations. Suddenly bringing back six million workers to Mexico, especially to rural areas, would severely depress labour markets, although it would also allow employers to increase hiring and production. But this is all hypothetical. The exercise is for all migrants and for men only, because the participation rates of women in rural areas are lower (although they have increased and help to explain the rise in wage income). The counterfactual allows a re-assessment of the relationship between remittances per capita and GDP per capita. Although for Mexico the exchange of migrant labour for remittances yields far less than average GDP, these migrants would not earn the average Mexican GDP in their hometowns because they depart from low-productivity areas and possess little human capital.

**Conclusions**

A significant missing piece in this analysis pertains to the migration process of the rural poor. Escobar (2008) argued that the rural poor migrate in specific ways due to three factors: their financial constraints, the recent nature of their migration, and the specific nature of the social capital used to migrate. Poverty

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2 The census provides no data on pre-departure occupations, nor on the migrant’s schooling level. We therefore used household average schooling as a proxy for migrant schooling.

3 Although the R² is low in this final exercise (.438), it was decided that this was preferable to having a higher figure that in our view was less reflective of actual opportunity costs.
and the social organization of the rural poor condition their migration process, which means that the 10:1 earnings ratio between the United States and Mexico does not easily translate into significant economic improvement for migrants and their families. Nevertheless, migration is a process, and the social capital of the poor evolves in ways similar to the social capital of others. Successful migrants often help their families; there is upward mobility, and a few returnees start successful agricultural or other businesses. Good jobs and access to good migration networks can help migrants to overcome poverty and “normalize” their migration process.

The impact of remittances on poverty and inequality can be summarized as follows:

1) Remittances make a significant contribution to GDP.
2) Remittances, however, do not compensate Mexico for the labour lost to migration.
3) Among Mexico’s poorest 5%, the propensity to migrate is much lower than average. However, Mexico’s 20% poorest households are the most frequent remittance receivers, suggesting a marked difference in migration frequency between the poorest and those just above them.
4) Non-poor households receive larger absolute remittances than poor households, but poor households receive a larger share of their total income from remittances.
5) Remittances reduce income inequality, but poverty and inequality are lower in a no-migration counterfactual scenario.
6) One reason may be the specific social process of migration among the poor, which generates remittances in more difficult conditions than for non-poor migrants.

From a development perspective, we can conclude that, in the current context, migration may represent a net loss for Mexico. Migration has a positive impact on poor, high-emigration areas, but the potential impact on Mexican growth could be greater if these migrants stayed at home.

References


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Statistical Sources


