

Mexican labour market performance and emigration

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Abstract

During the last three decades, the Mexican economy has not generated enough jobs for the expanding labour force. Unemployment rate in Mexico is low, but almost one third of the labour force works in the informal sector. Migration flows from Mexico to the US have been significant in the last decade. Even though the number of Mexicans in the US has remained stable, Mexican immigration to the US dropped from 2006 to 2009. Emigration is a key employment channel for the enlarged working-age Mexican population. A reduced migratory flow may pose a major challenge for the Mexican labour market.

Keywords: Mexico-US migration, labour market.

Introduction

The percentage of international migrants has remained relatively stable over the past few decades, but their number has increased rapidly. The global economic crisis slowed emigration, although it does not appear to have stimulated substantial return. With economic recovery and job growth, most experts expect this slowdown to be temporary. Since the underlying reasons for migration dynamics remain, migration is likely to increase further.

This paper provides an overview of the Mexican labour market and the Mexico-US migration patterns, with special reference to recent changes. It includes recent estimates of the age and educational profile of the Mexican population residing in the United States.

Background

Mexico and the U.S. share the longest border between a developing and a developed country. For most of the past two centuries, the number of Mexican-born people living in U.S. was insignificant. Between 1942 and 1964, the Bracero Program allowed the temporary migration of nearly five million agricultural workers, establishing a migration culture in some communities of Western Mexico. The number of Mexicans living in the U.S., below half a million in 1950, reached 2.2 million in 1980 (Passel, 2009).

Mexico-US migration rose rapidly after 1980, as the number of Mexican-born US residents doubled between 1980 and 1990. By 2004 the number of Mexicans in the U.S reached 11.2 million (Lowell, Passel and Pederzini, 2006), and climbed 11.5 million in 2009 (Passel and Cohn, 2009). No country hosts as many immigrants from one single country as the United States from Mexi-

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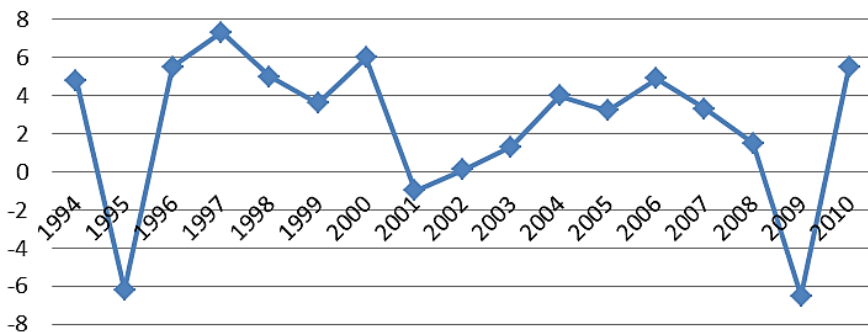
co. From the Mexican side, the number of citizens in the U.S. represents 11% of the total population.

The 2008-09 recession generated speculation about Mexico-US migration. The predicted massive migrant return did not occur, but recent data from the 2010 Mexican Population Census suggest an increase in the number of migrants who returned from the US to Mexico. On the other hand, there is evidence that since 2006, the growth rate of the immigrant Mexican population in the US has declined, meaning that more Mexicans are expecting to get a job in Mexico despite the recession.

The Mexican labour market

During the last three decades, the Mexican economy has not generated enough jobs. Between 1994 and 2009 the Mexican economy expanded by an average annual 2.3 per cent (Figure 1), too slow to provide jobs for the expanding labour force (the population between 15 and 64 years of age rose from 53.1 to 71.5 million, an increase of 34.7% (National Population Council). In 1980 the population between 15 and 64 years of age accounted for 32% of the total population, and their share rose to 61% in 2000 and to 63.6% in 2010 (Figure 2).

Figure 1: Mexican gross domestic product (growth rate)



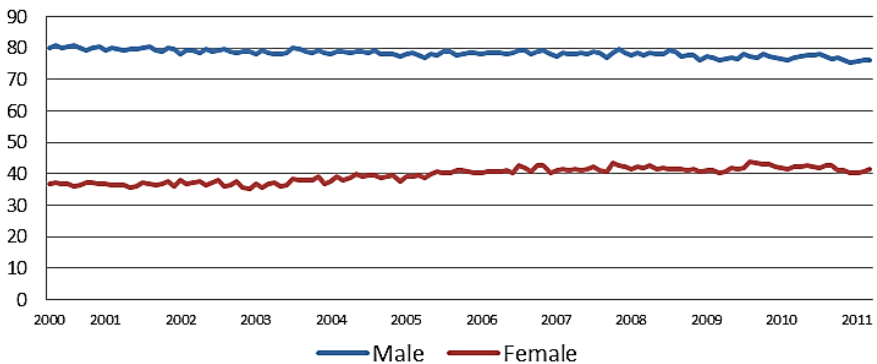
Source: INEGI.

These changes in the age composition of the Mexican population represent a demographic transition that is explained in part by the drop in fertility rates, (the total fertility rate dropped from 7.3 in 1960 to 2.05 in 2010) and an decrease in mortality (life expectancy grew from 58.6 years in 1960 to 75.3 in 2010). A larger share of population in working ages creates an economic opportunity that can transform a demographic bonus into an economic bonus if economic growth allows the employment of the enlarged working force.

Studies documenting trends in the overall labour force have shown increased labour force participation due to rapidly rising female labour force

participation. In contrast, as shown in figure 2, male labour force participation has decreased slightly during the past five years. Duval and Orraca (2009) found that the labour force participation rate of unskilled males has been falling for newer generations, which may be related to international migration because of the income generated by remittances. Labour force participation over the life cycle follows the traditional inverted-U shape, although for men this curve reaches its peak at earlier ages than for women (Inter-American Development Bank, 2003).

Figure 2: Labour participation rate by sex



Source: ENOE (National Household Employment Survey).

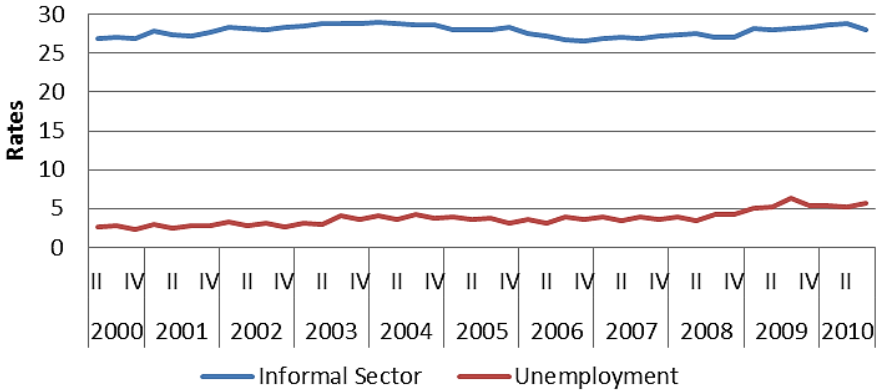
Mexico's labour legislation has not been changed significantly since the 1970's. By imposing high severance payments to employers, Mexican labour law promotes high labour costs and low mobility in the private and public sector. Medium and small businesses have opted to hire informal workers, which gives them flexibility but leaves workers with low levels of job security. The result is a dual labour market with negative effects on productivity, competitiveness and social security. A labour reform promoting flexibility in formal employment is currently being discussed in Congress.

The unemployment rate in Mexico is low, but almost one third of the Mexican labour force works in the informal sector. Figure 3 shows increases in the unemployment rate during 2008 and 2009, with the highest peak on the third quarter of 2009. The rate of informality shows slight increases in the period, which may indicate the substitution of formal for informal employment. This supports the argument that participation in the informal sector in Mexico is countercyclical, mostly because it is easiest to find formal sector jobs in boom times, not because the formal sector sheds workers during recessions (Bosch and Maloney, 2007)

The number of workers affiliated to IMSS (Instituto Mexicano del Seguro Social) provides a proxy of the size of the formal labour market in Mexico. Figure 4 shows a decrease in the total number of IMSS-affiliated workers dur-

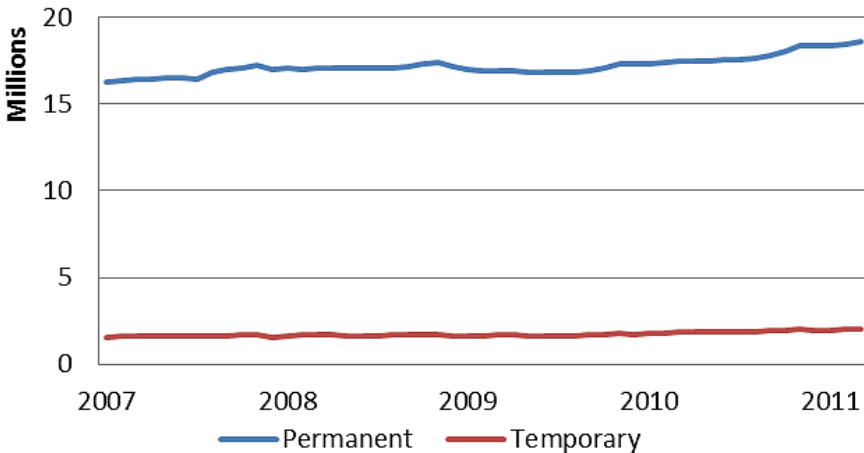
ing 2008 and 2009, followed by an increase in at the end of 2010 and beginning of 2011. The effect of the crisis seems smaller when we look at these figures than when we examine other economic indicators such as GDP growth, probably due to the lack of flexibility (mainly high severance payments) in the formal sector.

Figure 3: Informality and unemployment in the Mexican labour market



Source: ENOE (National Occupation and Employment Survey)

Figure 4: Number of workers affiliated to IMSS

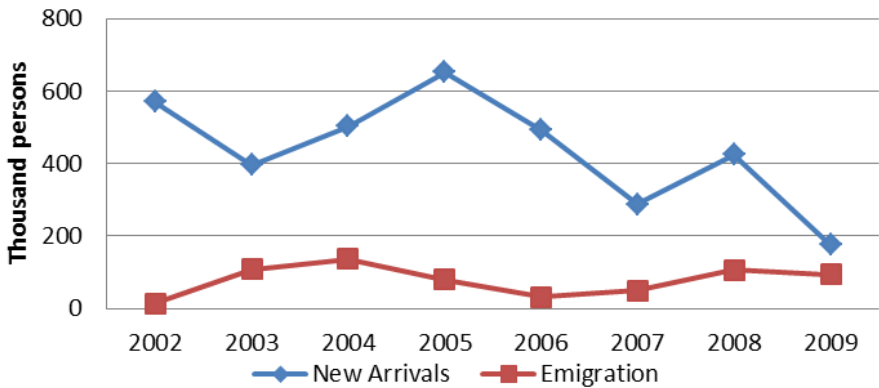


Source: Instituto Mexicano del Seguro Social

Migration from Mexico to the US

Migration flows from Mexico to the US have been significant in the last few years. According to Passel and Cohn (2009), Mexican immigration to the US, especially unauthorized migration, began to drop in the mid-2006, and that pattern has continued into 2009. Between March 2008 and March 2009, the estimated annual flow of Mexico-US migrants was around 175,000 persons, the lowest of the decade and only about half of the average of the previous two years. Figure 5 shows the dynamics of the new arrivals in the 2002-2009 period.

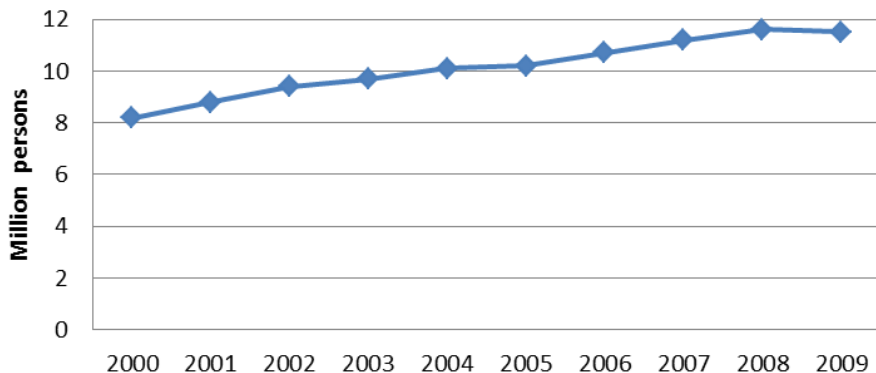
Figure 5: Annual components of change for Mexican-born population in the US



Source: Passel and D’Cohn (2009) based on CPS.

The decline in the flow of Mexicans to the US has not dramatically affected the number of Mexican citizens living in the US, as figure 6 suggests. The increasing trend of the 2000-2008 period is slightly reversed in 2009, but the change is small. This graph shows that the increase in the number of migrants returning to Mexico during the recession is similar to what occurred 2003 and 2004.

Using the Mexican National Censuses of 2000 and 2010, Zenteno (2011) found a sharp decrease of Mexico-US migration and an increase in the rate of return migration. The 2000 census reported that, during the 1995-2000 period, there were 1.6 million emigrants and 285,000 returning migrants, while the 2010 found 1 million emigrants and 351,000 return migrants during the previous five years. These data suggest that average Mexican emigration fell from 269,000 between 1995 and 2000 to 152,000 between 2005 and 2010 (almost all Mexican emigration is to the US). Between 1995 and 2000 only 17 per cent of all migrants who emigrated had returned to Mexico in 2000 but, a decade later, the return percentage almost doubled to 32 per cent.

Figure 6: Mexican-born population in the US.

Source: Passel and D’Cohn (2009) based on CPS.

Migration and the labour market

There is little empirical literature on the labour-market impact of emigration in source countries. Mishra (2006) found a strong and positive impact of the outflow of workers on wages in Mexico, so that a 10 per cent decrease in the number of Mexican workers due to emigration in a skill group (defined by schooling and experience) increased the average wage in that skill group by 4 per cent. Thus, the outflow of Mexican workers to the United States between 1970 and 2000 would be associated with an increase in the wage of an average Mexican worker by about 8 per cent. Hanson (2005) compared high-migration states with low-migration states in Mexico during and found that the average hourly earnings in high-migration states rose relative to low-migration states by 6 to 9%.

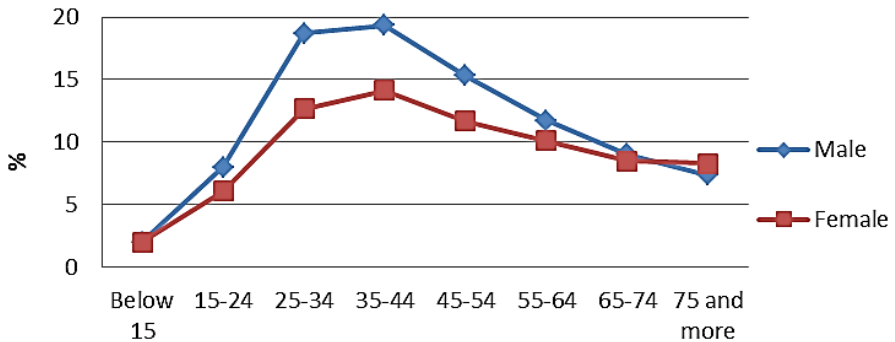
Selection of Mexican migrants

Identifying whether Mexican migrants tend to come from the bottom or the top of the Mexican skill distribution has important implications for social and economic research and policy. It is also one of the most debated topics in the migration literature. Migrants are mainly drawn from young age groups, but it is important to know more about them.

Data from the Mexican National Survey of Employment and Occupation (ENOE) for the first quarter of 2010 and the 2009 American Community Survey (ACS) can provide these detailed data.

Figures 7-9 show emigration rates¹, the percentage of all Mexican-born persons (stock) living in the United States, by age (figure 7) and educational level (figures 8 and 9), as determined by self-reported of years of education and completed degrees in the ENOE and the ACS². Figure 7 shows that males dominate Mexico-US migrants. About 20 per cent of Mexican men aged 25-34 and 35-44 resides in the US. For women the proportion is slightly lower, but equal to men’s in the age group 65-74 and slightly higher for the oldest age group.

Figure 7: Percentage of Mexican-born population residing in the US by age group, 2009-2010



Source: Lowell and Pederzini (2011).

Women tend to migrate once a household is established in the US and, since they are especially impacted by greater deterrence at the border, they tend to stay in the United States once they enter. This female migration pattern and a higher female life expectancy explain the lower female participation in younger groups.

International migration is allowing around 20% of Mexican men³ in the most productive ages to find a job in the US, which is positive for Mexico.

¹ Emigration Rate = $E_{USA} / (E_{USA} + P_{Mexico})$, where the emigration rate includes in the denominator both the Mexican-born emigrant population residing in the United States (E_{USA}) and the population resident in Mexico (P_{Mexico}).

² Below primary education includes all adults who have not completed at least six years of education, while primary completers report having completed six years of education (primaria). Middle school is the first level of secondary education (secundaria) and includes adults who report up to 12 years of education but not having completed high school (preparatoria); and we include here non-tertiary type technical degrees granted in Mexico. A high school or secondary completion includes a “GED” in the United States and is similar in Mexico. A post high school level of completion includes all adults reporting at least one year of post-secondary education including technical degrees. A bachelor’s degree includes adults reporting having completed that degree, as does a master’s degree and the doctorate or professional degree.

³ Labour force participation of Mexican men in the US is close to 100%. In the case of women the rate varies with age.

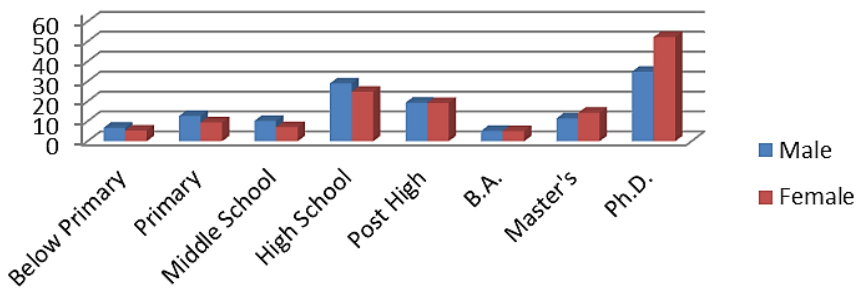
However, the long term effects of having such a big share of Mexican labour force working outside the country should be assessed carefully.

Migration has a deep impact on the Mexican labour force and, through remittances, on the economic well-being of families in Mexico. If low-skilled migrants are the major share of the migration flow from Mexico to the US, and migration responds to differences in the return to skills between countries, migration will reduce the relative scarcity of high-skilled labour in Mexico and the earning disparities between high and low-skilled workers. Income inequality may be further reduced by remittances. Moreover, if economic development and rising educational attainment in Mexico is accompanied by a reduction in the return to skills, over time there may be a reduction in the size of migrant flows from Mexico to the United States and an increase in the skill composition of future Mexican migrants. On the other hand, if household wealth or access to credit markets is an important pre-condition for migration, migrants will be drawn from the upper half of the Mexican skill distribution and economic development may lead to ever-more migration and increased inequality within Mexico.

Figure 8 shows that the share of Mexicans from particular education groups who are in the US increases as we move up the education ladder. For example, 11.5% of the Mexican-born men and 14.3% of Mexican-born women holding a Master’s degree live in the U.S as do 34.9% of Mexican-born men and 52.1% of Mexican-born women with a Ph.D. degree

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Figure 8: Percentage of all Mexican-born population residing in the US by level of completed education, 2009-2010.



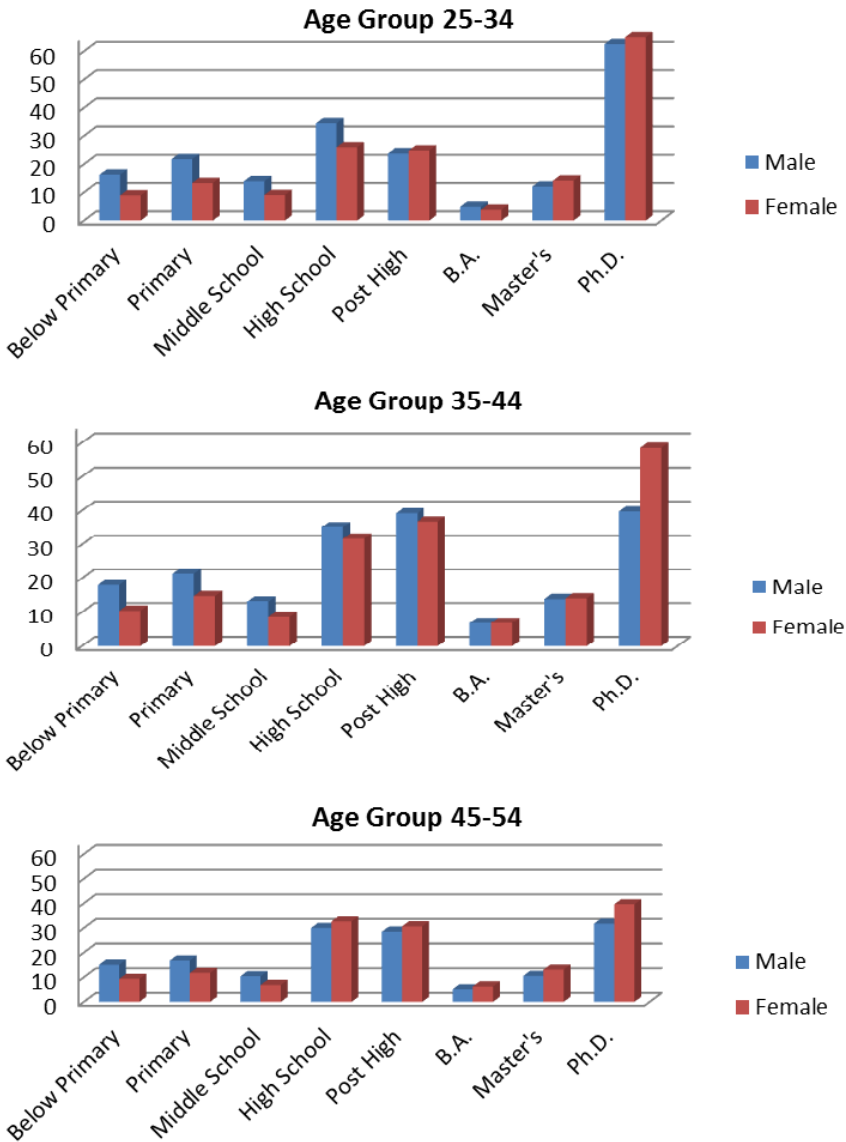
Source: Lowell and Pederzini (2011).

Figure 9 shows the results in three age groups: 25-34, 35-44 and 45-54. The most educated population is in the youngest group and almost 60% of the Mexican population holding a PhD degree in the 25-34 age group lives in the U.S.

We can also see that the proportion of women with a PhD is greater than the proportion of men in the three age groups. However, the difference in the youngest group (25-34) is very small while in the two other groups, the pro-

portion of women is significantly higher, suggesting that Mexican women with a PhD show a greater tendency to remain in the US once they finish their graduate degrees than men, perhaps because they marry in the US. In the

Figure 9: Percentage of Mexican-born adults residing in the US by level of completed education, age and sex, 2009-2010.



Source: Lowell and Pederzini (2011).

three age groups, the proportion of Mexican migrants in the most educated groups is higher, indicating that Mexican migrants come from the most productive ages and from the most educated groups, with more positive selection for women.

There is an increasing rate of emigration in all three age groups, as can be seen by contrasting the rates of emigration from the oldest to the youngest cohort. Rates of emigration are greatest among adults with a secondary education. However, these rates are declining, while rates of emigration among the tertiary educated have been increasing. We can also see that the emigration rate of Mexicans holding a bachelor degree is surprisingly low, perhaps because Mexican degrees are not valued in the US labour market or earnings for bachelors in Mexico may be relatively higher than in the US.

Mexican migrants in the US are drawn from the most productive age groups and the rate of emigration rises with the level of education, with over half of Mexican-born women holding PhDs in the US. More research is needed to separate those who migrated as children from those who got their secondary and tertiary education in the US.

Concluding remarks

The Mexican economy is highly dependent on the US economy: 79.9% of Mexican exports go to the US, while 48.8% of the imports come from the US. In 2009 Mexican GDP decreased 6.5%, and unemployment increased from 4.2% in 2008 to 5.6%. Mexico's domestic market is not heavily influenced by the external sector, so that exports increased 208.5% between 1991 and 2008 while private consumption grew only 71.7%.

Even though the 2010 Mexican Census shows a greater rate of return for Mexican emigrants, there is no evidence of a massive return of Mexicans living in the US. However, the outflow of Mexican workers has decreased considerably. Mexicans in the US show above average educational levels, and years of schooling are increasing for the younger generations.

Mexico's economy has not been able to offer enough job opportunities to Mexicans reaching the working age. The evidence presented here shows that emigration, together with the informal sector, has become a key employment channel for the enlarged working-age Mexican population. A reduced migratory flow may pose a major challenge for the Mexican labour market.

Several studies show the complementarities of the Mexican and the US labour markets in terms of education, experience and age (Hanson and McIntosh (2009), Robertson, Meza and Baulieu (2009)). Taking advantage of these complementarities may enhance the capability of North America to compete in the world economy and, more importantly, may increase the wellbeing of citizens on both sides of the border.

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