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# Crossings

*Mexican Immigration in Interdisciplinary Perspectives*

Edited by Marcelo M. Suárez-Orozco

Photographs by Anna LeVine

The David Rockefeller Center Series on Latin American Studies, Harvard University

Crossings:  
Mexican Immigration  
in Interdisciplinary  
Perspectives

Edited by  
Marcelo M. Suárez-Orozco

Published by  
Harvard University  
David Rockefeller Center for Latin American Studies

**DISTRIBUTED BY**  
**HARVARD UNIVERSITY PRESS**  
**CAMBRIDGE, MASSACHUSETTS**  
**LONDON, ENGLAND**

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Printed in the United States of America

*Library of Congress Cataloging-in-Publication Data*

Crossings: Mexican immigration in interdisciplinary perspectives /  
edited by Marcelo M. Suárez-Orozco.

p. cm.

Includes bibliographical references and index.

ISBN 0-674-17766-5 (hardcover). —ISBN 0-674-17767-3 (pbk.)

1. Mexican Americans—Social conditions. 2. Immigrants—United States—Social conditions. 3. Mexico—Emigration and immigration. 4. United States—Emigration and immigration. I. Suárez-Orozco, Marcelo M., 1956- II. David Rockefeller Center for Latin American Studies.

E184.M5C76 1998

305.868'72073—dc21

98-18176

CIP

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**Enrique Dussel Peters** I was born in Paris, where I lived for a few months, then I lived in Germany for one year, where my sister was born, and my family moved finally to Argentina in 1967. My father, being an Argentine academician, was persecuted after Peron's death in Argentina by the right-wing "Triple A" and we were forced to leave the country in 1975. We moved to Mexico City that year.

As in any such experience, there are several perspectives. Thousands of Argentines were killed in these years; some had to flee from Argentina in different ways. Being a nine-year-old boy, I remember when the bomb exploded in our house, destroying a significant part of it. However, probably due to my age and the beauty and spirit of the country and the Mexican people, my immigration experience was not traumatic. I remember my first years in Mexico for having missed my family (grandparents, uncles, cousins), as well as street friends with whom I played soccer in the streets, chess, and other games. The change from living in a provincial city and moving to a chaotic megacity was also difficult in these first years. However, I believe that due to my age, I was able to integrate rather quickly into Mexican society, and in a few weeks I was able to speak "Mexican" Spanish. After several years, I felt like a Mexican, even though I am not originally of Mexican nationality.

In contrast to some of my Argentine and Chilean friends, my studies and work were not significantly influenced by these past experiences. On several occasions while studying in the United States (in South Bend, Indiana, and San Diego, California), I have made friends with Mexican immigrants, both documented and undocumented. Nevertheless, I strongly believe that there are many different immigration stories and experiences. Mexican immigration to the United States, for example, has been significantly different from Argentine and Chilean immigration to Mexico in the 1970s: The relative openness of Mexico's institutions and society, the relatively higher levels of education and income among South American immigrants, the differences in distances and the impossibility, in some cases, of returning "home" radically change the immigration experience. I returned to Mendoza, where I had lived in Argentina, after 20 years in 1995. Before, I could not return with my family because of the rule of the military junta. I felt, after 20 years, besides the joy of meeting part of my family and new family members, like a stranger and a foreigner.

Associate Professor at the Graduate School of Economics, Universidad Nacional Autónoma de México (UNAM), 1993 to present. B.A. and M.A. at the Free University of Berlin, and Ph.D., University of Notre Dame. Publications include *La Economía de la polarización. Teoría y evolución del cambio estructural manufacturero mexicano (1988-1996)* (México: Editorial JUS/UNAM, 1997); and, with Michael Piore and Clemente Ruiz Durán, *Pensar globalmente y actuar regionalmente. Hacia un nuevo paradigma industrial para el siglo XXI* (México: Editorial JUS/UNAM/Fundación F. Ebert, 1997).

## Recent Structural Changes in Mexico's Economy: A Preliminary Analysis of Some Sources of Mexican Migration to the United States

**Enrique Dussel Peters**  
**Facultad de Economía, UNAM**

Mexico's economy has gone through deep structural changes recently. At the beginning of 1997, just two years after the most profound crisis since the 1930s, Mexico was able to repay \$12.5 billion of the emergency loan from the United States. Moreover, since mid-1996 there have been significant signs of an economic recovery. In spite of these recent tendencies, it is important to point out some of the difficulties and contradictions that Mexico is currently facing and will continue to confront into the beginning of the next century. This realization is not a matter of pessimism or frustration, as some high-ranking officials have said, but rather a matter of discussing and trying to prevent or mitigate some of these problems through appropriate policy measures.

To understand the recent dynamics of the domestic economy and Mexico's potential for growth, this chapter will focus on Mexico's macroeconomic conditions and the most significant challenges that have resulted from the liberalization strategy. Several of Mexico's political and economic challenges are strongly related to Mexican migration to the United States.

The chapter will be divided into four sections. The first section will briefly introduce the discussion in the literature regarding the relationship between economic activity in Mexico and its impact on Mexican migration to the United States. The second section will analyze Mexico's macroeconomic development during the 1990s and will highlight some of the most significant challenges and

difficulties. The third section will examine the topics of employment and real wages in Mexico in greater depth, as two significant causes of Mexican migration to the United States. The fourth and final section will present the conclusions reached.

### ISSUES IN THE DISCUSSION OF MEXICO'S ECONOMY AND MIGRATION TO THE U.S.

There are multiple causes of migration. The World Bank (World Bank 1995), for example, refers to a variety of economic and political causes of migration that depend strongly on the particular regions of origin and destination. Similarly, the causes of Mexican migration to the United States have been discussed in depth; however, there is no final and conclusive evidence on the topic. There is also a consensus regarding the insufficiency of data and information concerning these processes. In this ongoing discussion, at least the following issues have been highlighted:

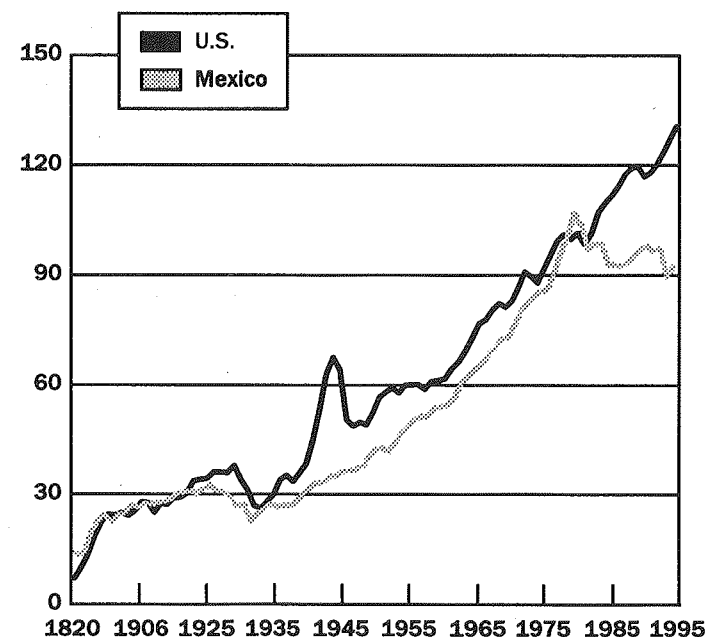
1. There is no single issue or variable that determines migration to the United States. Moreover, both the source of labor power for the United States and its demand are critical to understanding the issue, that is, it is not sufficient to study independently the labor market conditions in Mexico or those in the United States. Cultural, regional, familial, economic, legal, and, more recently, military issues in Mexico and the United States, as well as the interaction of some or all of these processes, play a role in the final decision to migrate to the United States (Cornelius 1978; Massey, Goldring, and Durand 1994; Verduzco Igartúa 1995).
2. Mexican migration to the United States has been going on for a long time and is usually parallel to the growth and development of infrastructure, agriculture, and critical economic sectors in the United States (Espinoza Valle 1990; Verduzco Igartúa 1995).
3. As in other cases, Mexican migration has a variety of causes. Nevertheless, and contrary to migration from other nations to the United States, Mexicans' motivations for migration are mainly economic.<sup>1</sup> Chávez, Flores, and López Garza (1989), for example, not only show that economic motives are the most significant for Mexican immigration but also that there are a variety of economic motives, particularly, for both women and men, low wages in Mexico and high wages in the United States. A recent study on this issue (COLEF, CONAPO, and STPS 1994) observes that 27.5 percent of Mexican immigrants did not

have a job before going to the United States and concludes that the lack of a stable and well-paid job, as well as the recurrent immigration to the United States, is significant for understanding this phenomenon. The gap between gross domestic product (GDP) per capita in Mexico and the United States seems to be particularly important and has not yet received sufficient analysis. As reflected in Figure 2.1, the "lost decade" of the 1980s, which resulted mainly from a fall in the generation of employment, as well as declining GDP per capita and real wages, seems to have affected migration to the United States. The increasing gap since the Mexican crisis of December of 1994 might increase potential Mexican migration to the United States.

5. Mexico's northern border region (*zona fronteriza*) provides a significant demand for employment in maquiladoras and is an important buffer zone for Mexican migration to the United States. Ciudad Juárez, Nuevo Laredo, and particularly Tijuana are border cities where since the beginning of this century demographic growth has depended on migration from other regions of Mexico as well as migration to the United

FIGURE 2.1

GDP per Capita in Mexico and the United States, 1820–1996 (1980=100)



Source: Data obtained from Maddison (1995); GDP per capita values for 1995 and 1996 were estimated.

States (Browning and Zenteno 1993; Carillo 1993; COLEF, CONAPO, and STPS 1994; Piñero 1992).

6. It is most important to understand that migration may be either permanent or temporary. Historically, and particularly in recent decades, Mexican migration to the United States has been characterized by being seasonal, temporary, and seen as a complement to family income, wages, and employment (COLEF, CONAPO, and STPS 1994; Verduzco Igarúa 1996).

### RECENT MACROECONOMIC EVOLUTION AND CHALLENGES FOR MEXICO'S ECONOMY

Since the beginning of the 1980s, and particularly since 1988, Mexico embarked on a radically new policy of economic development. It abandoned its commitment to import substitution industrialization (ISI) accompanied by various forms of active government intervention in the economy. Since then, economic policy moved toward an increasing reliance on market mechanisms and macroeconomic policies to direct the evolution of the microeconomic structure and thus achieve an export orientation for Mexico's manufacturing sector. As part of this liberalization strategy, it liberalized imports, controlled inflation and the fiscal balance, and generated incentives to attract massive foreign investment.

The liberalization strategy has not been modified significantly during the Zedillo administration, in spite of some changes imposed by the crisis of December of 1994. It is important to establish a clear understanding of the various components of this strategy.

#### Pillars of the Present Macroeconomic Policy: The Liberalization Strategy (1988–1994)

Mexico's liberalization strategy was consolidated through a series of *Pactos Económicos*, originating in December of 1987. The respective *Pactos*—which included wage ceilings and allowed for an ex post facto indexation of wages—were negotiated among official unions, the government, and the private sector, and became the centerpiece of the new strategy. The major reforms and guidelines of the liberalization strategy are described below (Aspe Armella 1993; Córdoba 1991; Dussel Peters 1997).

1. Since 1988 the government has viewed controlling inflation rates and the fiscal deficit, as well as import liberalization and the attraction of foreign investments, as the principal mechanisms of the liberalization strategy. These macroeconomic changes were designed to induce microeconomic incentives for economic restructuring. From this per-

spective, the liberalization strategy attempted to create new patterns of specialization and comparative advantages so that the export-oriented private sector would be at the center of the new growth model.

2. Reprivatization of the banks, since the mid-1980s, and the overall reduction of state intervention in the allocation of credit and in the financial sector in general have been critical mechanisms of the liberalization strategy (Garrido and Peñaloza 1996).
3. The Banco de México has pursued orthodox and restrictive monetary and credit policies to achieve the main objectives of the strategy (Banco de México 1996) and was granted an autonomous constitutional status in order to pursue such policies. Moreover, the nominal exchange rate was used as an anchor to control inflation, which resulted in an appreciation of the real exchange rate.
4. The process of import liberalization began at the end of 1985, when most official import prices and import licenses were replaced by tariffs. Since then, tariffs fell continuously until 1994. The implementation of the North American Free Trade Agreement (NAFTA) on January 1, 1994, overshadowed previous agreements and negotiations and marks the final stage of Mexico's import liberalization and overall trade policies.
5. Privatization or disincorporation of state-owned companies was one of the main structural changes at the macroeconomic level and was intended to produce microeconomic structural change in the private sector. Furthermore, it became an important source of revenue for the government (Rogozinski 1993).
6. Different mechanisms were implemented to enhance foreign investments, particularly high interest rates and more open laws and regulations. Moreover, NAFTA changed investment-related issues significantly, since each nation has to treat other investors and their investments no less favorably than national investors.

It is important to mention that these institutional and macroeconomic changes generated an overwhelmingly positive attitude toward Mexico internationally, particularly during the Salinas administration, and thus fueled private capital flows to Mexico.

#### Results of the Liberalization Strategy, and Challenges for Mexico's Economy at the End of the 1990s

Since the imposition of the liberalization strategy, several important economic issues arose. In the tradition of prior development strategies, the liberalization

strategy is still highly dependent on political events. On one hand, the end of one administration (or *sexenio*) and the beginning of another have almost always been accompanied by an economic crisis. On the other hand, the evolution of Mexico's economy has been associated with the evolution of the main political party, the Partido Revolucionario Institucional (PRI). Since the end of the 1980s this party has had to adjust to a more democratic and participatory society and political system, and therefore is in the midst of either a transition process or crisis (Ibarra 1996). The economic situation in Mexico in the late 1990s will thus critically depend on the PRI's transition away from being a state institution and its potential for becoming an authentic political party, as well as the response of the main opposition parties. Moreover, economic developments in Mexico will also depend on the behavior of other social and political actors in the country and their relationship with the government. The resulting political interaction will be crucial for national and foreign investors in Mexico. Finally, the solution offered for a different way of dealing with social uprisings as well as guerrilla movements will also be critical for Mexico's future economic development.

On the positive side of the liberalization strategy, it is important to stress that inflation and the fiscal deficit were under control until 1994, and that the country was able to attract massive foreign investment. Most important, exports have become one of the main pillars of economic growth and have increased continuously during 1980 to 1996, particularly during periods of crises, such as in 1982 and 1994 to 1995 (Table 2.1). However, inflation levels began to surge again during 1995 to 1996.

On the negative side, growth of GDP and GDP per capita have been far below historical levels (see Figure 2.1), employment has not yet achieved the dynamism necessary in order to incorporate the growing economically active population into the formal labor force, and real wages are significantly below the levels prevailing at the beginning of the 1980s. Similarly, the savings ratio has declined steadily since 1980, as well as the gross fixed investment/GDP coefficient. Moreover, the issue of foreign indebtedness, which triggered the crisis of 1982, is still a very critical issue for the economic evolution of Mexico and remains a latent problem as well as an immense burden on Mexican society. Finally, Mexico's economy, particularly private manufacturing, has not yet been able to create a link between the export sector and the rest of the economy, as evidenced in the high trade deficit until 1994, particularly in the export-oriented manufacturing sector. These processes have produced increasing economic, social, and regional polarization.

From this perspective, Mexico's economy faces many economic structural challenges for the late 1990s. So far, the liberalization strategy has not been

able to generate growth rates similar to those attained between 1940 and 1980. After the "lost decade" of the 1980s, the crisis of 1994 to 1995 produced the strongest fall in the rate of GDP of Mexico since the 1930s. For the period from 1988 to 1995, for example, GDP grew at an average rate of 1.7 percent, which was slightly below the level of population growth.

One of the most significant structural changes in Mexico's economy has been the increasing incapacity to integrate its growing population into formal employment. On the contrary, and as analyzed more in depth in what follows, the Mexican economy not only failed to integrate the growing economically active population but also massively expelled labor power from several economic activities. Moreover, employment growth during the liberalization strategy has been far below the levels achieved before 1982. This exclusion process is critical for understanding the dimension and potential of the informal labor market and migration to the United States.

The liberalization strategy has also resulted in an increasing polarization of Mexico's economy. A few branches—mainly automobiles and auto parts, basic petrochemicals, glass, and electronic products—have been able to substantially increase their share of GDP, employment, and exports, as well as improving labor and capital productivity. These branches feature the highest capital intensity of Mexico's economy. This tendency has sharpened export concentration since NAFTA and the crisis of December of 1994. The increasing capital intensity of these dynamic branches underlines some of the contradictions and difficulties for job creation in the future.

As stressed earlier, the export-oriented manufacturing sector was at the center of the liberalization strategy. However, until today, Mexico's economy has not been able to overcome one of its most striking structural conditions: its high dependency on imports, particularly in the most dynamic sectors and branches during periods of growth. This "import-oriented industrialization" (Dussel Peters 1997) is also reflected in the worsening of the trade balance/GDP coefficient of manufacturing, that is, the relationship between net exports and value added, which accounted for -44 percent in 1994. This evolution is most significant since it reflects the high and increasing import dependency of the sector, particularly of the most dynamic branches, the difficulties the most dynamic branches and manufacturing in general have in generating linkages with the rest of the national economy, and the incapacity of manufacturing to substantially integrate itself into the world market.

The prior analysis leads to the conclusion that the private manufacturing sector was at the root of the crisis of December of 1994 given the rapid liberalization strategy and this sector's incapacity for integration into the world



TABLE 2.1

Main Macroeconomic Variables (1980–1996)

	1980	1981	1982	1983	1984	1985	1986	1987
GDP	8.2	8.8	-0.6	-4.2	3.6	2.6	-3.8	1.7
GDP per capita	5.4	6.1	-3.0	-6.5	1.2	0.5	-5.5	0.0
Employment	14.7	6.2	-0.3	-2.3	2.3	2.2	-1.4	1.1
Real wages (1980=100)	100.0	105.2	97.4	85.2	84.2	84.1	83.5	79.9
Real wages (1980=100), minimum wage	100.0	101.3	104.7	84.8	71.8	70.9	63.2	60.3
Open unemployment	4.7	2.5	7.0	6.6	5.7	4.4	4.3	3.9
Gross fixed investment/GDP	24.8	26.4	23.0	17.5	17.9	19.1	19.5	18.4
Private	14.1	14.3	12.3	11.0	11.3	12.5	12.9	13.2
Public	10.7	12.1	10.2	6.6	6.6	6.6	6.5	5.2
Inflation	29.8	28.7	98.8	80.8	59.2	63.7	105.7	159.2
Financial deficit/GDP	7.5	14.1	16.9	8.6	8.5	9.6	16.0	16.1
Exports of goods and services	25.7	11.4	22.6	14.2	5.7	-4.5	4.5	9.5
Imports of goods and services	35.2	17.7	-37.9	-33.8	17.8	11.0	-7.6	5.1
Trade balance <sup>b</sup>	-4.7	-5.7	8.7	12.6	11.9	7.7	3.3	5.9
Current account <sup>b</sup>	-10.7	-16.1	-6.2	5.4	4.2	1.2	-1.7	4.0
Capital account <sup>b</sup>	11.4	26.4	9.8	-1.4	1.3	-1.5	2.7	-1.2
International reserves <sup>b</sup>	4.2	5.0	1.8	4.7	8.0	5.7	6.7	13.7
Foreign investment <sup>b</sup>	2.1	3.5	2.6	-0.2	-0.4	-0.5	0.7	2.8
Foreign direct investment <sup>b</sup>	2.2	2.5	1.7	0.5	0.4	0.5	1.5	3.2
Foreign portfolio investment <sup>b</sup>	-0.1	1.0	0.9	-0.6	-0.8	-1.0	-0.8	-0.4
Total foreign debt <sup>b</sup>	57.5	78.3	86.1	93.1	94.9	96.9	100.9	109.5
Public <sup>b</sup>	34.0	43.1	51.6	66.9	69.8	72.7	75.8	84.3
Private <sup>b</sup>	7.3	10.2	8.1	14.8	16.3	15.7	15.1	14.1
Total external debt service <sup>b</sup>	9.4	10.6	12.3	13.0	15.9	15.3	12.9	12.1
Interest payments <sup>b</sup>	4.6	6.1	7.8	8.2	10.3	10.2	8.4	8.3
Principal repayments <sup>b</sup>	4.8	4.5	4.5	4.8	5.7	5.1	4.6	3.8
Total external debt/GDP	26.9	32.2	79.9	93.4	93.0	91.8	116.1	117.1
Total external debt/exports of goods and services	216.1	259.3	334.8	345.1	222.1	356.8	459.5	370.9
Total external debt service/ exports of goods and services	38.3	22.9	75.3	37.5	59.1	49.3	53.5	49.6
Real exchange rate (1978=100) <sup>d</sup>	85.2	78.6	116.3	131.5	115.8	116.2	150.7	151.9

Notes: All data refer to growth rates, unless otherwise specified. Maquiladora activities are not included.

<sup>a</sup> Data for some of the variables are preliminary.<sup>b</sup> Billion \$U.S.<sup>c</sup> Estimations.<sup>d</sup> The real exchange rate is calculated as the nominal exchange rate deflated by the consumer price index for Mexico and the U.S. (1978=100).

Source: Own estimations based on data from INEGI, CEPAL, Banco de México, and Oxford Economic Forecasting.

TABLE 2.1 (CONTINUED)

Main Macroeconomic Variables (1980–1996)

	1988	1989	1990	1991	1992	1993	1994	1995 <sup>a</sup>	1996 <sup>c</sup>
GDP	1.2	3.5	4.4	3.6	2.9	0.9	4.6	-7.0	5.1
GDP per capita	-0.2	1.7	2.5	1.7	0.9	-0.9	1.7	-8.7	3.3
Employment	0.9	1.3	0.9	2.6	0.4	0.2	1.2	-7.5	3.4
Real wages (1980=100)	76.4	73.9	71.5	73.6	77.5	79.2	81.6	69.7	60.0
Real wages (1980=100), minimum wage	53.6	49.4	43.1	40.7	39.3	38.9	38.8	34.0	27.0
Open unemployment	3.6	3.0	2.8	2.6	2.8	3.4	3.7	6.3	5.5
Gross fixed investment/GDP	19.3	18.2	18.6	19.5	21.9	21.1	22.1	16.9	15.7
Private	14.2	12.7	13.7	14.9	16.6	16.6	17.3	11.9	11.4
Public	5.0	4.7	4.9	4.6	4.2	3.3	3.6	3.5	3.6
Inflation	51.7	19.7	29.9	18.8	11.9	8.0	6.9	54.5	27.7
Financial deficit/GDP	12.5	5.6	3.9	-1.5	1.6	0.7	-0.1	0.1	1.0
Exports of goods and services	5.8	2.3	3.6	4.6	1.7	3.7	17.3	32.0	20.7
Imports of goods and services	36.7	21.3	19.7	16.8	20.9	-1.2	16.7	-25.6	23.5
Trade balance <sup>b</sup>	-0.9	-4.1	-6.3	-13.4	-23.0	-21.4	-27.3	-3.8	0.8
Current account <sup>b</sup>	-2.4	-5.8	-7.5	-14.9	-24.8	-23.4	-29.7	-1.6	-1.8
Capital account <sup>b</sup>	-1.2	3.2	8.3	24.5	26.3	32.5	14.6	-15.7	3.6
International reserves <sup>b</sup>	6.6	6.9	10.3	18.1	19.3	24.3	6.1	15.7	18.0
Foreign investment <sup>b</sup>	5.6	3.5	6.0	16.9	23.6	32.7	15.6	-3.1	21.5
Foreign direct investment <sup>b</sup>	2.9	3.2	2.6	4.8	4.4	4.4	8.0	7.0	6.4
Foreign portfolio investment <sup>b</sup>	2.7	0.3	3.4	12.1	19.2	28.4	7.6	-10.1	15.1
Total foreign debt <sup>b</sup>	99.2	93.8	100.8	103.8	112.9	127.6	136.5	161.1	172.3
Public <sup>b</sup>	80.6	76.1	77.8	80.0	75.8	78.7	85.4	100.9	94.5
Private <sup>b</sup>	5.9	13.9	16.5	17.0	37.1	48.9	51.1	60.2	77.8
Total external debt service <sup>b</sup>	8.1	14.5	11.2	16.1	25.7	24.7	32.9	31.6	33.6
Interest payments <sup>b</sup>	6.4	6.9	5.5	5.8	5.3	4.8	5.4	6.3	15.6
Principal repayments <sup>b</sup>	1.7	7.6	5.7	10.3	20.4	19.9	27.5	25.3	18.0
Total external debt/GDP	58.9	49.5	43.7	40.8	34.8	35.1	36.2	64.0	62.0
Total external debt/exports of goods and services	273.8	225.2	209.4	223.2	205.8	208.0	191.8	179.6	150.0
Total external debt service/ exports of goods and services	56.8	41.2	27.9	37.7	55.6	47.6	54.0	34.3	33.0
Real exchange rate (1978=100) <sup>d</sup>	122.4	115.8	110.3	100.5	91.9	86.8	90.2	130.7	105.0

market; so far this has not been acknowledged by the government or reflected in its policies.

External debt, which triggered the crisis of 1982, has apparently disappeared as one of the main problems for the successive administrations (Gurria Treviño 1993). However, Table 2.1 shows that the amount of external debt has continued to increase since 1988 and reached an estimated \$170 billion in 1996; in 1996 alone Mexico's total external debt service was estimated at \$33.6 billion, or around 13 percent of its GDP (SHCP 1996). Thus, the issue might be one of the most important variables for generating overall uncertainty due to debt payment difficulties or as a result of political or economic events that affect foreign investments flows.

Other issues, such as the crisis in the financial and banking sectors and the critical conditions of individuals and firms that are highly indebted, are not examined here. Nevertheless, they are still highly significant in the country's present economic context and will result in high economic costs for the Mexican government: Government intervention in buying bad loans from financial institutions was estimated at around 10 percent of GDP in 1996.

Increasing economic concentration and heterogeneity, the dynamism of a few branches representing the highest intraindustry trade, and access to foreign markets and international financial markets have contributed to economic, social, and regional polarization, a process that began with the liberalization strategy and that has intensified since the crisis of December 1994. Domestic demand is below the levels for the 1980s; the polarization between domestic-oriented firms and export-oriented firms has grown rapidly since 1994, which also affects their respective real wages and the overall structure of income distribution.<sup>2</sup>

### RECENT PATTERNS IN DEMOGRAPHY, EMPLOYMENT, AND REAL WAGES

In the first section we observed that low levels of employment and real wages are two of the important causes for Mexican migration to the United States, although they are only part of the explanation of this process. In this section we will analyze some basic demographic tendencies in Mexico and their impact on employment, the evolution of employment, and, finally, the performance of real wages. For this analysis we will use data from 1980 on and some projections up to the year 2000.<sup>3</sup>

Mexico's population has been growing rapidly since 1980. Total population growth has been on average 2.2 percent from 1980 to 1990 and has declined only slowly to 1.8 percent since 1994. Similarly, the economically active popu-

lation (EAP)<sup>4</sup> showed an average annual growth rate (AAGR) of 3.6 percent during 1980 to 1990, with levels between 3.6 percent and 3.8 percent during the 1990s (Table 2.2).

From this perspective, one of the most critical aspects for employment is the annual growth of the EAP with respect to total existing employment. The required employment coefficient reflects the growth of employment required in order to capture total labor supply, including the growth of the EAP, and depends, thus, on the growth of the EAP and on total employment. The gap—either positive or negative—between required employment growth and employment growth is important, since it highlights the basic conditions of the labor market (Figure 2.2).

In Mexico's case, required employment should have grown at around 5.2 percent<sup>5</sup> during the 1990s, when in fact employment's AAGR was -0.2 percent during 1990 to 1996. That is, throughout this period the EAP increased by more than 7.6 million, while the economy expelled almost 260,000 workers from their jobs (Figure 2.3). This tremendous gap of more than 7.8 million jobs for the 1990 to 1996 period reflects, on the one hand, the incapacity of

TABLE 2.2

Total Population and Economically Active Population

	1980	1985	1990	1991	1992	1993	1994	1995	1996	2000	1980-96	1996-2000
Thousands												
Total population	67,003	74,036	81,290	82,884	84,502	86,092	87,687	89,267	90,848	99,199	—	—
Economically inactive population	45,007	48,183	49,851	50,244	50,672	51,022	51,337	51,597	51,798	54,199	—	—
Economically active population	21,996	25,853	31,439	32,640	33,830	35,070	36,350	37,670	39,050	45,000	—	—
Structure <sup>a</sup>												
Total population	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Economically inactive population	67.17	65.08	61.32	60.62	59.97	59.26	58.55	57.80	57.02	54.64	60.48	55.77
Economically active population	32.83	34.92	38.68	39.38	40.03	40.74	41.45	42.20	42.98	45.36	39.52	44.23
Growth Rates <sup>b</sup>												
Total population	—	2.0	2.0	2.0	2.0	1.9	1.9	1.8	1.8	—	1.9	2.2
Economically inactive population	—	1.4	1.0	0.8	0.9	0.7	0.6	0.5	0.4	—	0.9	1.1
Economically active population	—	3.3	3.6	3.8	3.6	3.7	3.6	3.6	3.7	—	3.7	3.6

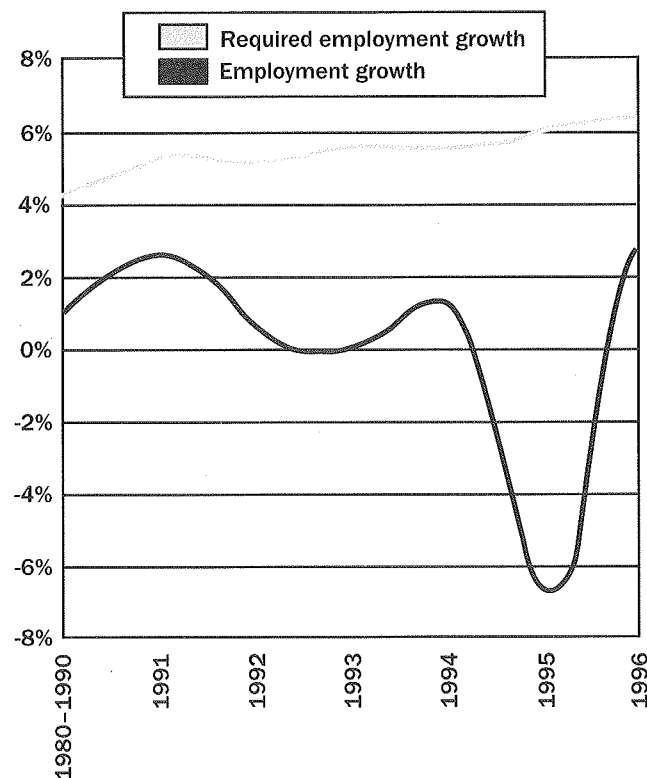
<sup>a</sup> As a percentage of total population.

<sup>b</sup> Data for 1985 and 1990 refer to the annual average growth rate for 1980-1985 and 1985-1990, respectively.

Source: Own estimations based on INEGI and Oxford Economic Forecasting.

FIGURE 2.2

Required Employment Growth and Employment Growth



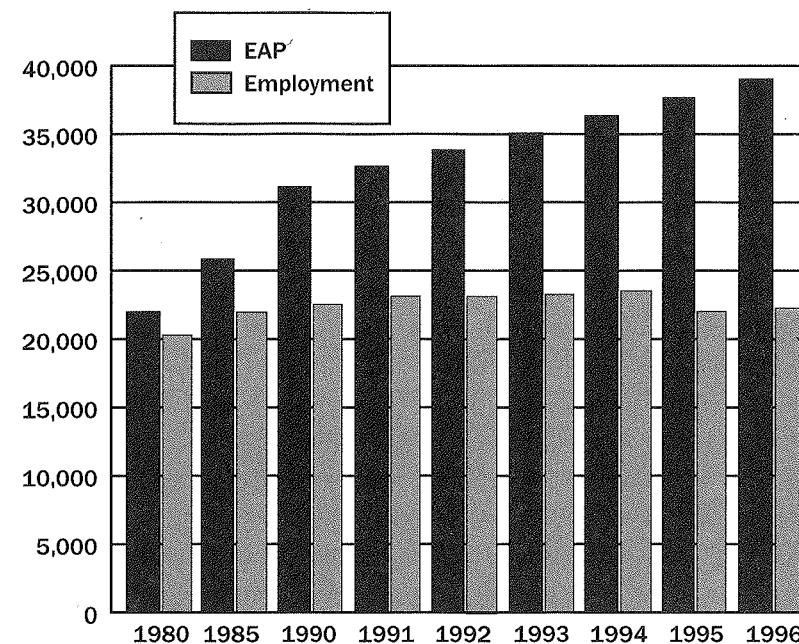
Mexico's economy to provide employment for the growing EAP, contrary to prior periods under ISI (Dussel Peters 1996). On the other hand, it also explains the massive growth of the informal labor market and of potential migration to the United States as well.

Considering these tendencies as the basis for understanding Mexico's labor market, during 1980 to 1996 employment in Mexico has been characterized by an increase in the EAP of 17.05 million with an increment of less than 2 million formal jobs; that is, 15.05 million individuals had to search for a job either in the informal sector or in the United States. In this context, Figure 2.4 shows, on the one hand, that manufacturing has been the only subsector that has expelled workers for the whole period, and, on the other hand, that both communal services<sup>6</sup> and construction have been the most important subsectors of Mexico's economy in terms of generating employment.

The following tendencies have been exacerbated by the performance of Mexico's economy during the liberalization strategy:

FIGURE 2.3

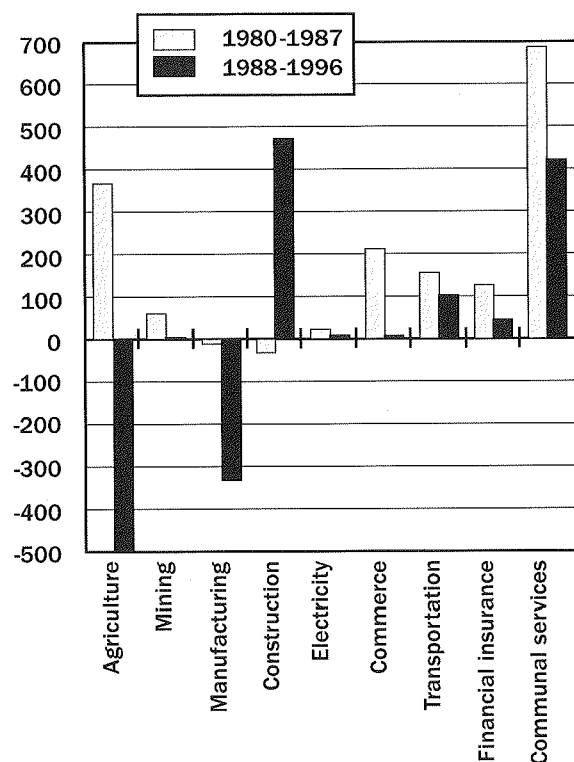
EAP and Employment (1,000s)



1. A slow but continuous decline in the share of the labor force absorbed by agriculture and manufacturing and an increase in service sector employment. It is important to stress that this tendency was accentuated after the December 1994 crisis, but has been consistent since 1980. This apparent tertiarization of Mexico's economy does not necessarily reflect a dynamic development of services, but rather the incapacity of agriculture and manufacturing to generate employment.
2. Manufacturing's share of total employment fell from 12.04 percent in 1980 to 9.42 percent in 1996 and presents an AAGR of -2.35 percent for 1988 to 1995. With the exception of other manufacturing industries, all subsectors show an expulsion of labor, which is particularly pronounced for more traditional subsectors such as textiles, apparel and leather, wood and its products, and structural metal products. However, even metal products, machinery and equipment, which includes automobiles and auto parts, showed a decline in its share on total employment from 2.70 percent in 1980 to 1.79 percent in 1995.
3. After communal services, construction has been the most important subsector for generating employment since the 1980s, and particularly

FIGURE 2.4

Employment Creation by Sectors (1,000s)



for the period from 1988 to 1996, with an AAGR of 2.80 percent. This tendency reveals a lot about the quality of employment generation, since construction has the lowest level of real wage per worker (Dussel Peters 1996).

4. It is important to stress that within services, communal services (social and personal) has remained the most important economic activity in terms of employment since the 1980s, representing around 30 percent of total employment. Moreover, transportation, storage, and communications, as well as financial insurance and real estate, have significantly increased their share in total employment, particularly since the end of the 1980s.
5. Maquiladora activities have been the most dynamic in terms of employment generation since the beginning of the 1980s. They presented an AAGR for 1980 to 1996 and 1988 to 1996 of 12.5 percent and 9.76 percent, respectively. In other words, this has been the only sector

in the economy that has generated employment at a level superior to that required by Mexico's growing population and EAP. Even in absolute terms the evolution of the maquiladoras has been significant: from less than 125,000 workers in 1980 to around 800,000 in 1996. Even during periods of crisis for Mexico's economy, such as in 1982 and from 1994 to 1995, employment growth was positive for maquiladoras. Similarly, maquiladora employment as a share of manufacturing employment has increased substantially, from 5 percent in 1980 to almost 40 percent in 1996. On the other hand, and in spite of this impressive dynamism, the maquiladoras should not be overestimated: In 1996 they employed just above 50 percent of the required increase in annual employment (Mendiola 1997).

6. The employment issue also has a strong regional component, as was suggested by the performance of the maquiladora sector, which is heavily concentrated along Mexico's northern border. As already stressed, the crisis of December of 1994 produced a decline in employment of more than 7 percent. The relative recovery of the employment level since then is most important and reflects a regional polarization within the country. From July 1995—the worst month after the crisis in terms of employment—to October of 1996—the last month for which it was possible to obtain regional and sectorial employment data<sup>7</sup>—employment increased by 854,470 jobs; the northern border states<sup>8</sup> accounted for 240,000 jobs, or 28 percent of total employment growth. According to the same data source and period, maquiladoras generated more than 20 percent of total employment, in spite of its small share of total employment.

This is the situation of employment and the challenge posed by unemployment in Mexico. Official statistics attempting to measure unemployment, particularly what is defined as the open unemployment rate, are useless in the Mexican context. By definition, the open unemployment rate refers to the share of the EAP who have not worked for even one hour a week, even though they have searched for a job. Given the Mexican labor market conditions—particularly the inexistence of institutions that support the unemployed population—the open unemployment rate in Mexico is inappropriate; it is even surprising that there is any openly unemployed population at all. Moreover, it does not capture the massive increase of employment in the informal sector and of Mexican migration to the United States, as already discussed.

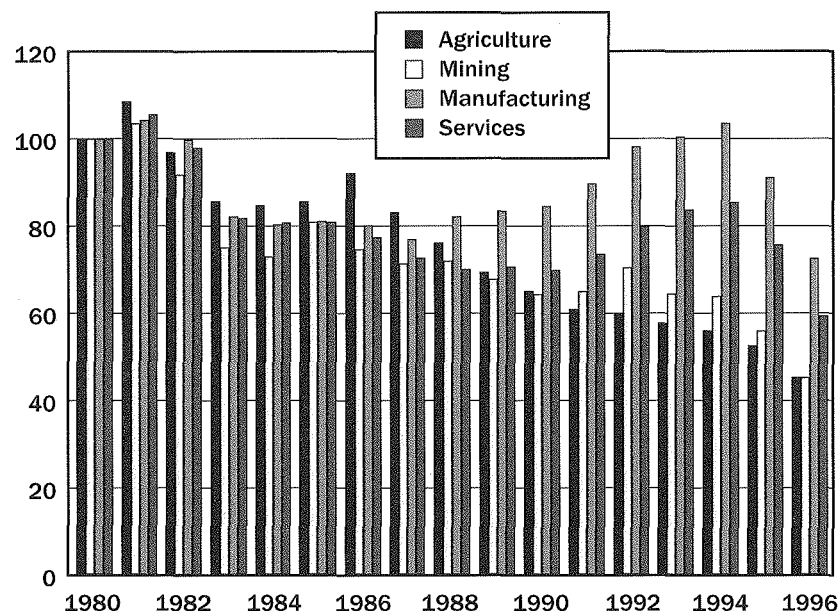
Real wages as well as real minimum wages<sup>9</sup> have declined substantially throughout 1980 to 1996. Real wages showed an AAGR of -0.5 percent during

1980 to 1996 and in real terms represent in 1996 only 60 percent of their 1980 value, while the real minimum wage in 1996 represents only 27 percent of its 1980 value (Table 2.1). This dramatic decline of income can be observed in all economic subsectors. As highlighted in Figure 2.5, none of the subsectors has real wage levels above the ones achieved at the beginning of the 1980s. This decline, which has had a significant impact on effective demand and has also polarized the economic and social structure in Mexico, was accentuated by the crisis of December 1994.

These tendencies show that Mexico's economy has not been able to incorporate most of its EAP into formal employment; on the contrary, the expulsion of labor from various subsectors and the incapacity to significantly increase formal employment throughout 1980 to 1996 mean that most of the growing EAP has to search for employment in the informal sector or through migration to the United States. The apparent tertiarization of Mexico's economy is a result of the declining participation in total employment by agriculture and manufacturing, as well as generation of employment in construction and communal services. The shift in the employment structure during 1980 to 1996 reflects a decline in the quality of available employment.

**FIGURE 2.5**

Real Wages by Sectors (1980=100)



## CONCLUSIONS

This chapter concludes that the liberalization strategy, as implemented since 1988, has had an extremely heterogeneous impact on Mexico's economy and was characterized by a general process of exclusion even before the crisis of December of 1994. The emphasis of the liberalization strategy on macroeconomic and market-oriented mechanisms has also resulted in an increasing social, economic, and regional polarization since only a few branches and export-oriented sectors have been able to benefit from these policies.

This strategy has achieved important effects on productivity and exports, and controlled inflation and the fiscal deficit, at least until 1994. However, most successful branches have increased capital intensity and productivity by expelling labor; this has been particularly evident in the case of manufacturing since 1988. Moreover, it is important to stress that the economic recovery achieved since 1996, both in terms of GDP and export growth, has not reversed the tendencies analyzed before. On the contrary, export growth has been highly concentrated in the same dynamic branches since 1988 and, as a result of GDP growth, imports are again growing much faster than exports, which reflects the unsustainability of this growth model.

Just as it is for other nations, generating employment is a crucial task for Mexico and there does not seem to be a solution in the near future given the massive dimensions of the challenge. According to some estimates, total GDP would have to increase by more than 10 percent annually in order to absorb the increasing EAP in the years ahead (Dussel Peters 1996), a rather difficult goal given Mexico's current economic conditions. Moreover, real wages have declined substantially since 1980 and again throughout the 1990s, which increases the pressure on the labor market.

From this perspective, and considering that neither employment nor real wages in Mexico are the only causes of immigration to the United States, it is at least possible to say that there is a vast potential of labor power in Mexico that is willing to work and desperate enough to join the informal labor market and/or to cross the border to the United States. The increasing gap in GDP between Mexico and the United States since the 1980s seems to sharpen this tendency. Regional issues within Mexico have also become important from this perspective, since in the north maquiladoras have been able to function as a buffer zone for Mexican migration to the United States whereas other regions in Mexico, particularly south of Mexico City, have suffered most under the liberalization strategy.



## ACKNOWLEDGMENTS

I am very thankful to the conference participants for their comments, particularly to John H. Coatsworth and Marcelo M. Suárez-Orozco.

## NOTES

1. The study by Chávez, Flores, and López Garza (1989), for example, is very clear in pointing out that Central Americans have migrated to the United States only recently; their main reason for migrating has been the political and economic instability in their respective countries.
2. One of the most dramatic cases that reflects this process relates to the automobile sector, probably the branch that benefited most under the liberalization strategy. Exports' share of total production was 3.9, 33.9, and 83.4 percent in 1980, 1990 and 1995, respectively. This shift in the production structure, due to the drastic fall in domestic sales, was also a result of intraindustry trade and the linkages of these transnational corporations to other firms and nations, particularly the United States. However, only a few Mexican firms were able to move in that direction. Small and medium firms in particular saw their production drastically diminished and yet had no opportunity to integrate to export networks (Ruiz Durán, Dussel Peters, and Taniura 1997).
3. Data on employment for 1995 and 1996 at the branch level were estimated by Oxford Economic Forecasting.
4. The EAP is defined as the group of persons, male or female, that are ready to contribute with work for producing goods and economic services. In Mexico, this includes all individuals 12 years old or older who are looking for a job (CELADE 1996; Instituto Nacional de Estadística Geografía e Informática [INEGI]).
5. The coefficient of required employment is calculated as the growth of the EAP in relation to total existing formal employment.
6. According to INEGI, communal services (social and personal) include activities such as professional services, educational services, and medical services, among others.
7. These data were obtained from IMSS and refers only to employed persons with social security. The data are not compatible with data provided by INEGI.
8. Coahuila, Chihuahua, Durango, Nuevo León, San Luis Potosí, Tampico and Zacatecas.
9. In 1995, 50 percent of the EAP obtained two minimum wages or less.

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## Commentary

**John H. Coatsworth, Harvard University**

Enrique Dussel Peters' chapter provides a thoughtful review of economic trends, policies, and problems in Mexico since the country's leaders opted to open its market and shrink its government a decade ago. He is surely correct to remind us that higher wages constitute an important (if not the only) attraction that beckons Mexican immigrants, both legal and undocumented, to the United States. Correcting for differences in purchasing power, Mexicans probably earn about a fifth to a quarter of the wages earned by inhabitants of the United States.<sup>1</sup>

This gap has fluctuated over the years, but stands today roughly where it was 100 years ago.<sup>2</sup> For much of the twentieth century, in fact, real wages in Mexico and the United States have tended to rise and fall together. For example, real hourly wages in most sectors of the U.S. economy have stagnated for the past 15 years or so, while Mexican wages have declined somewhat. Thus, even though the Mexican economy has stagnated while that of the United States has grown since 1980, the wage gap has not increased apace.

If the wage gap between Mexico and the United States has not changed in a hundred years, why are so many more Mexicans coming to the United States now than a century ago? Part of the answer to this question is demographic. Mexico's population has grown at high rates since the 1930s, so the population available to be enticed northward is now much larger than it was a century ago. Since the Revolution of 1910, the Mexican population has increased from barely 15 million to over 90 million. So, with a constant wage gap, one would expect annual Mexican immigration to the United States to increase fivefold over this period, even if nothing else had changed.

Though precise data are lacking, most experts appear to believe that the proportion of Mexicans who think seriously about coming to the United States and the proportion that actually do move north have increased over the past century and may still be rising.<sup>3</sup> That is, a constant wage gap (over the long run) appears to be associated with a rising immigration rate. Much has

changed over the past century to raise the rate of immigration, but two key factors stand out: (1) the long-term rise in the income levels of most Mexicans (and thus of the pool of potential immigrants) and (2) the long-term decline in the costs associated with immigrating (with or without documents) to the United States.

Mexicans who decide to come to the United States know that they must save up enough cash to cover all the expenses of the journey and still have something left over to carry them until their first payday. Over the course of the twentieth century, the proportion of the Mexican population earning enough to cover these expenses has increased substantially.<sup>4</sup> Should Mexican wages begin to rise again in the coming years, rates of undocumented immigration to the United States will probably increase, *ceteris paribus*, as more people manage to save what they need to immigrate.

The costs of immigrating to the United States have been reduced by social networks that help new immigrants to get settled and find work. U.S. border control efforts focus on keeping the costs up by forcing undocumented immigrants to finance repeated attempts to breach the border, longer travel times via more circuitous routes, and higher prices to "coyotes" and producers of forged documents. Enforcement within the United States concentrates on increasing the risk of apprehension and reducing job opportunities through employer fines, factory raids, and the like.

Border control and enforcement measures, to be truly effective against undocumented immigration, must raise the net costs of immigration as a proportion of the income of the immigrant pool in Mexico. If social networks continue to lower costs and Mexican incomes begin to rise again, the United States will have to spend even more on these efforts just to prevent the numbers from increasing. No one knows how much would be required.

It may be true (as many politicians but few scholars have it), that the rate of immigration from Mexico would decline if the wage gap could be reduced, not just for a few years (as in the late 1970s when oil exports ran up the peso), but permanently and irreversibly. If the Mexican economy had grown as fast as any one of the Asian tigers over the past quarter century or so and wages had more or less kept pace, Mexican wages would be in the range of two-thirds the U.S. level by now.<sup>5</sup> Would Mexican immigration to the United States be less today as a result? Will Mexicans cease moving to the United States in large numbers when they can improve their incomes by only 50 percent instead of 300 or 400 percent as is the case now?

For the foreseeable future, as Dussel Peters suggests, we are not likely to be given an opportunity to answer this question. The wage gap is more likely to

rise than to fall over the next decade or so. As the U.S. economy reaches the end of the Clinton boom, U.S. wages have begun to rise, albeit slowly, as many local and regional labor markets become tighter. On the other side of the border, massive underemployment of labor in Mexico is likely to keep real wages stagnant for many years to come. While the rate of increase of new entrants to the labor market will decline in the coming decade because population growth has slowed, free trade in grain under NAFTA will force many, perhaps millions, of Mexican farmers off the land during the first decade of the next century. And the next recession is likely to treat Mexico and Mexican wages more harshly than it does the United States.

For the foreseeable long-term future, as Dussel Peters concludes, Mexican citizens will continue to view immigration to jobs in the underground economy of the United States as a reasonable alternative to unemployment or underemployment in lower-paying jobs in Mexico. The subterranean integration of the labor markets of the two countries is likely to proceed unabated even if the United States continues to spend unprecedented billions of tax dollars trying to stop it. Surely the time has come to consider more orderly, economically sensible, and humane alternatives.

## NOTES

1. Mexican per capita gross national product (GNP), adjusted for purchasing power parity (PPP), declined from 27.8 to 23.7 percent of the U.S. level between 1987 and 1995 (World Bank 1997, 215). Trends in real wages in Mexico from the 1940s to the 1970s are the subject of much controversy. The gap in wages tends to track the gap in GNP per capita over the long run.
2. According to Angus Maddison, PPP-adjusted rates of economic growth for Mexico and the United States from 1900 to 1987 were roughly 1.6 and 1.8 percent per annum, respectively (Maddison 1989, 15). The difference between the two rates is partly accounted for by the Mexican decline between 1981 and 1987.
3. See the excellent review by Susan González Baker, Frank D. Bean, Augustin Escobar Latapi, and Sidney Weintraub in this volume.
4. PPP-adjusted per capita gross domestic product (GDP) in Mexico has more than tripled over the twentieth century (Maddison 1994, 22–23, Table 2-1).
5. The growth of PPP-adjusted GDP per capita of Hong Kong, South Korea, Singapore, and Taiwan averaged 6.7 percent per annum between 1965 and 1990, to cite the most dramatic cases (Asian Development Bank 1997, 2). The Mexican

economy did not even keep pace with the much slower pace of U.S. economic growth in this period.

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### CHAPTER THREE



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