

International Migration and Self employment: Evidence from four Mexican communities

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Market failures in the Mexican credit and insurance markets, along with the lack of labor market opportunities and a long history of economic integration with the US, have created a “migration culture” in many Mexican communities, where labor in the US has become a source of funds and a way to manage risk within families. This culture of migration has strengthened social networks on both sides of the border and has facilitated the emigration process.

Several studies show that people who provide themselves with a stable and appropriate source of income migrate in lower proportions. This study tries to find out what kind of micro firms are more efficient retaining people in their communities, and whether these micro firms constitute or not a counterbalance to the migration networks. On the other hand, the paper tries to test if migration complements self-employment through remittances and human capital, or if migration and self-employment are only substitutes.

To test our hypothesis we use data from a recently carried out household survey (July 2003) which includes personal data, data on business activity, and migration experience from four Mexican small urban areas (under 100.000 inhabitants) chosen according to their level of small business participation and the percentage emigration rate. The econometric estimation in this research intends to identify the small business characteristics that impact migration decisions, and the main migration factors influencing self-employment decisions.

The people interviewed in the survey are classified in four labor categories: employees, self-employed, unemployed and firm-owners. Firm owners are those who declare being self-employed having more than 1 or less than 10 paid employees. Self-employed are firm-owners with no employees.

The first estimation in the paper tries to model the migration decision using controls for the socio-demographic characteristics of people in the sample, including detailed information about the labor situation when the migration decision was taken. The covariates include information about migration networks of the worker and fixed effects by communities. The results show that owners of micro enterprises in the manufacturing sector, employees working more than 40 hours a week, and highly educated entrepreneurs migrate in lower proportions, while employees in general, the unemployed and people with schooling higher than secondary migrate in higher proportions than the rest of the people in the sample. The results also show the importance of the migration networks and the gender bias in the migration decision. An interesting result is that the predicting power of the network variable decreases when the self-employment covariates are included in the regression.

The second estimation tries to model the migration expectation of the respondents. This regression supports the results of the first estimation in the sense that the self-employed in the manufacturing sector, the highly educated self-employed and the employees working more than 40 hours a week perfectly predict failure of migration expectation. The employees in general declare lower migration expectations, as well as married people.

The third estimation in the paper tries to model the self-employment decision controlling for the socio-demographic characteristics of people in the sample, including detailed information about migration experience and expectations.

The covariates include information about migration networks of the worker and fixed effects by communities. The results show that people with migration experience tend to become entrepreneurs in lower proportions than the rest of the people in the sample, and that having family in the US do not significantly affect the self-employment decision. Our results reject our complementarity hypothesis between self-employment and migration hypothesis.

To correct for the endogeneity problems in the regressions, caused by the lack of a clear causality between the migration and the self-employment decisions, we also estimate the migration equation using two-stage least squares and instrumental variables. Our results confirm the hypothesis that family networks play a crucial role in migration decisions, and show that self employed individuals tend to migrate less than the rest of the population.