Gains and losses from emigration: A review of the El Salvador case from a National Transfer Accounts perspective

June 2013

Agenda

- Background: the emigration process of Salvadoran to U.S.
- Theoretical background and methods
- Results
- Conclusions

First stage of emigration process of Salvadorans to the US: destination, factors and numbers

Main characteristic of emigration process (1/2)

- The first stage comprises the emigration flows between 1970 and 1990
- United States was the main destination of all Salvadoran emigrants
- Some of the factors that stimulate emigration are mainly political but also secondarily economic and social exclusion
- Civil war between 1980 and 1992 gave an important impetus to the emigration, reaching a figure of "(...) around 50,000 immigrants annually“ (Kandel, 2002: 1)
- In the early 90s more than half a million Salvadorans were abroad (Lara and Soriano, n.d.)
  - Approximately 9.3% of the country's population at the time
- Salvadoran emigration to the United States continues even in postwar period (since 1992)

Second stage of emigration process of Salvadorans to the US: destination, factors and numbers

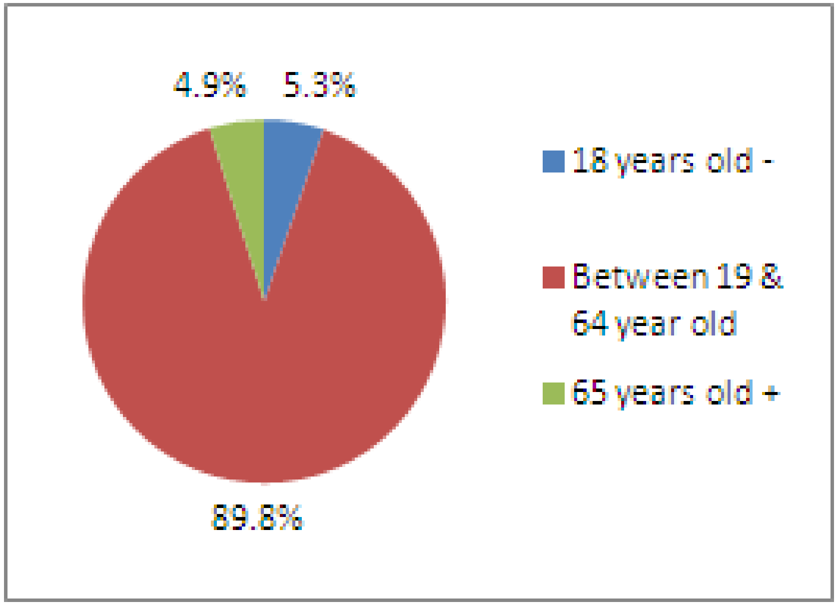
Main characteristic of emigration process (2/2)

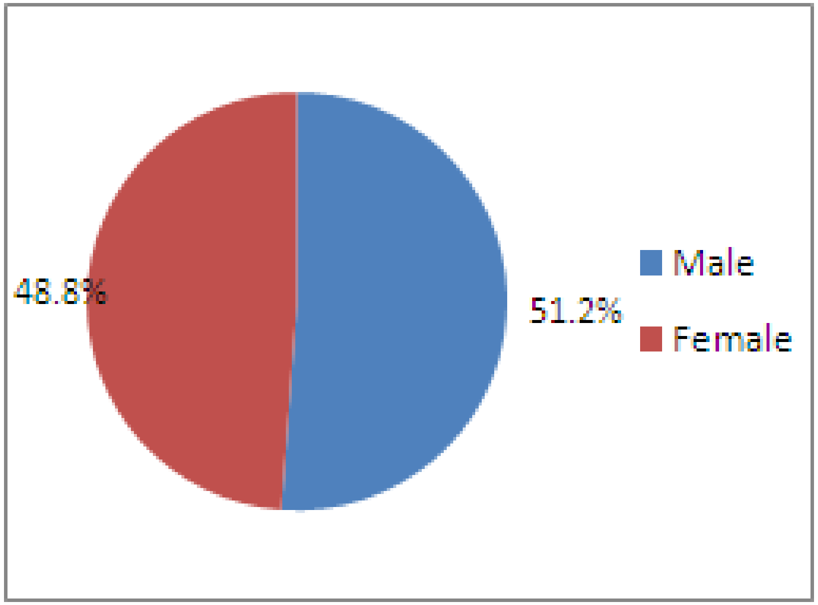
- All along the 90s 89.6% of emigrants targeted United States
- Roots of the “second stage”: lack of economic opportunities in the country, also adding other factors linked to the problems of crime and insecurity (Ruíz, 2010; Sermeño, 2006; Gaborit et al, 2012)
- In the last two decades between 1 and 1.3 million Salvadorans migrated to United States (Cervantes, 2012 and Barraza, 2013)
- Approximately 1.8 million of Salvadorans (among migrants and natives) are in the United States
  - 30% of the population of El Salvador (around 6.1 million of people)
- High levels of emigration of working age individuals to the United States affect in many ways:
  - Family disintegration
  - Loss of social cohesion and related issues
  - Macroeconomic and demographic losses and gains

“Migration Age Selectivity”

Percentages of Salvadoran emigrants to the United States

- By age groups (excluding natives) and sex(including emigrants and natives), 2010





Source: Authors' calculations based on Cervantes (2012)

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Emigration process impacts

Gains and losses form emigration

- The emigration of working age individuals impact on the population age – structure

- Loss of labor force
  - Opportunity costs in terms of output, asset accumulation and it's derived income, without considering other additional costs

- Gains that could be reach
  - Saving of resources by not having to finance consumption of emigrants, remittance flows increased ability to inject cash to households to deal with consumption requirements

To estimate costs and gains of emigration we use the Migration Age-Specific Cost (MASC) function

Function	Migration Age-Specific Cost (MASC)

$$\boldsymbol{MASC_t(x) = P_{t,uses}(x) * [y_t{}^l(x) + y_t{}^a(x) - c_t(x) - r_t(x)]}$$

Mejía and Vega (2012)

$y_t{}^l(x) =$ The average labor income for a Salvadoran age x at time t

$c_t(x) =$ The average consumption for a Salvadoran age x at time t

$y_t{}^a(x) =$ The average net private asset income for a Salvadoran age x at time t

$r_t(x) =$ The average remittances sent by Salvadorans age x at time t

$P_{t,usses}(x) =$ The age profile of Salvadorans living in the U.S. at time t

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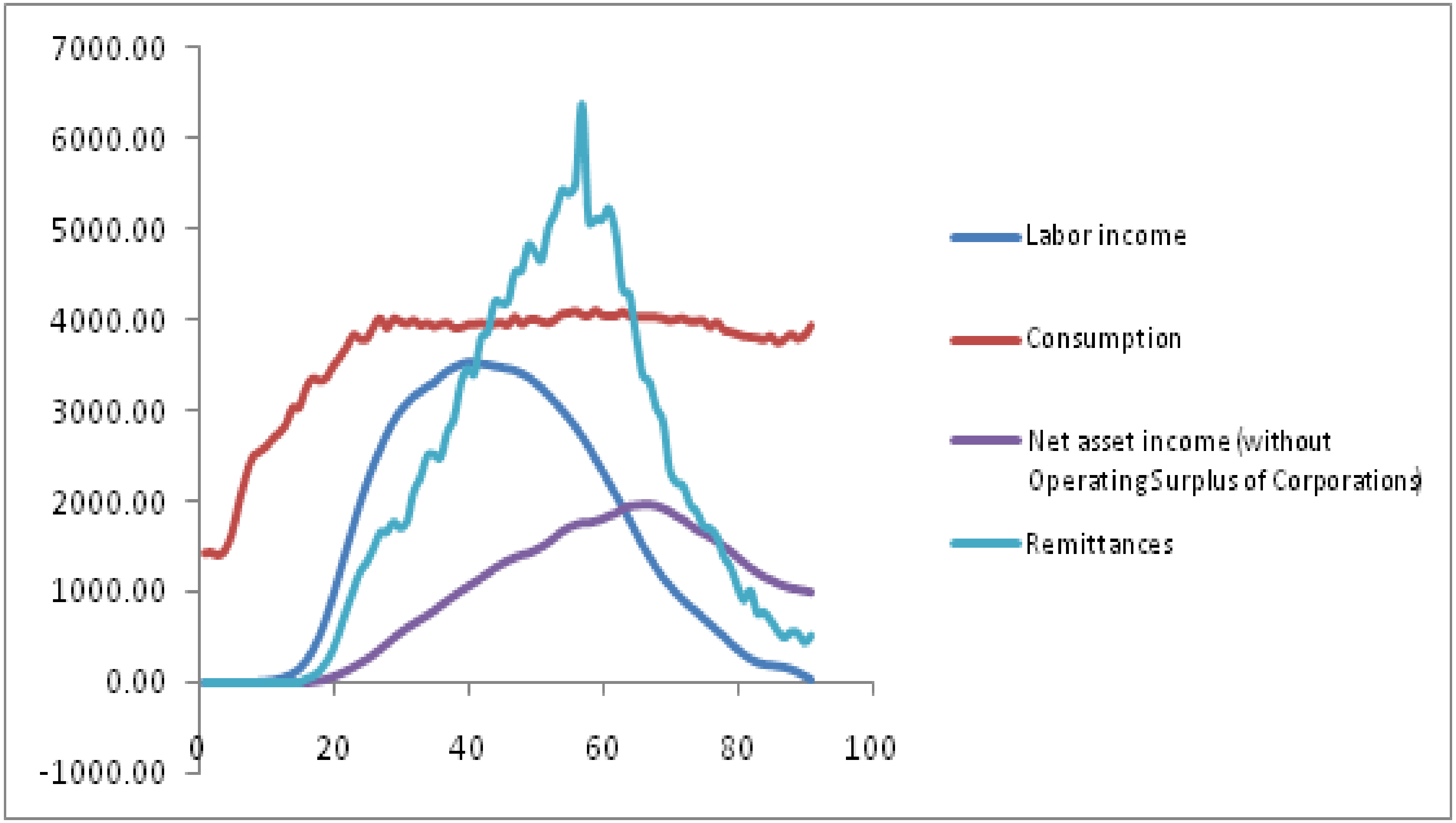
El Salvador has a positive LCD over all ages, consumption remains stable since the age of 20 years

Distribution of MASC function components

- El Salvador (2010)



Source: Authors' calculations based on Córdova et al (2012)

Remittances play an important role to support Salvadoran economy

MASC function components

- Labor income starts a steep rise around the age of 15 and peaks at 39 years of age
- Consumption is always higher than labor income regardless of age; it goes from the first years of life until about age 30 where it seems to reach a level that remains stable until the late lifecycle
- The lifecycle deficit of El Salvador is always positive
- Net asset income starts to increase from 20 years of age but always below the labor income until about 63 years where net asset income exceed the labor income until late ages
- Remittances sent by Salvadoran migrants and received by Salvadoran families every year are the major inter-household transfer

Remittances represented and average of 16% of El Salvador's GDP from 2001 to 2012

Annual remittances received by Salvadoran (millions of $ and %)

- 2001 – 2012

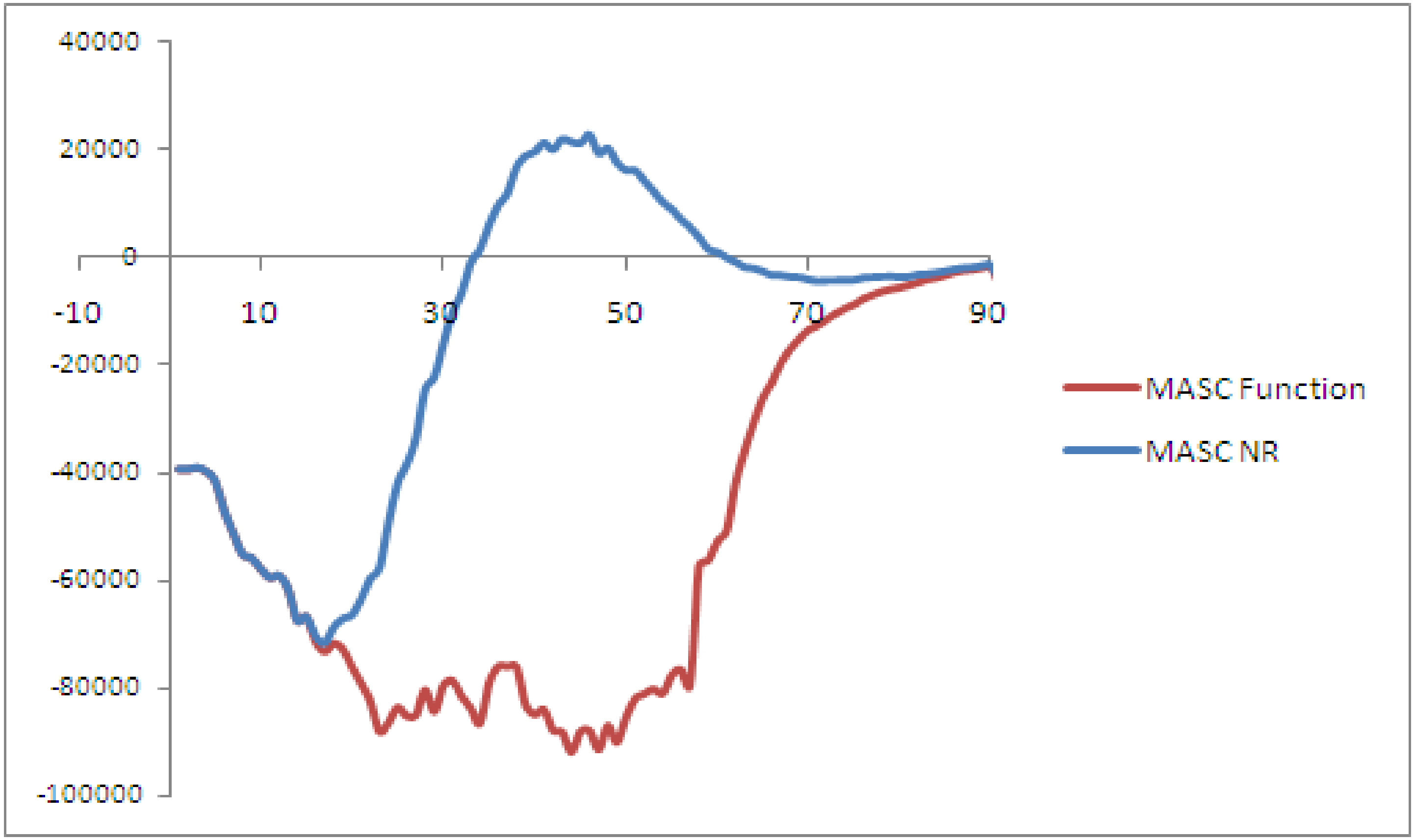
Year	Annual remittances received $	% of GDP
2001	1910.5	14%
2002	1935.2	14%
2003	2105.3	14%
2004	2547.6	16%
2005	3017.2	18%
2006	3470.9	19%
2007	3695.3	18%
2008	3742.1	17%
2009	3387.2	16%
2010	3431	16%
2011	3648.8	16%
2012	3910.9	16%

Source: Authors' calculations based on Córdova et al (2012) and Banco Central de Reserva (BCR)

Remittances impact in MASC function

Migration Age-Specific Cost (MASC) function (Thousands of $)

- El Salvador 2010



Source: Authors' calculations based on Córdova et al (2012) and nationals NTA teams estimations.

Remittances impact in MASC function

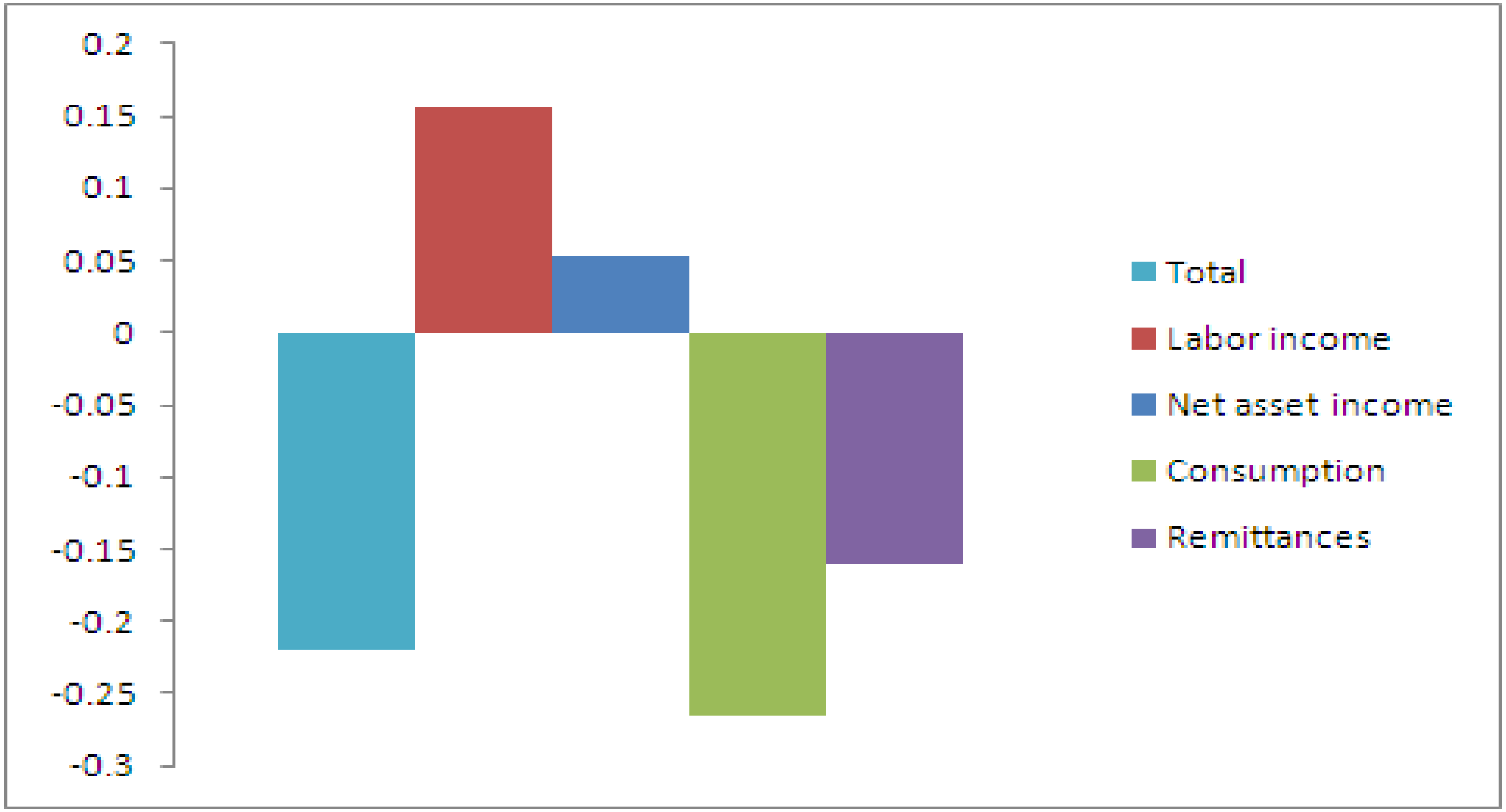
Results of MASC function

- The opportunity cost of migration is always less than the gains for all ages
- Remittances gains are always higher than the losses of emigration for all ages
- Not taking into account remittances (MASC NR) and only considering consumption not funded as a gain, between 32 and 61 years, the emigration would be a loss in terms of the MASC function
- Analysis does not consider other losses related to emigration as the loss of human capital or the “brain drain”, social costs such as family breakdown and its impact on individuals and communities, etc.

Net losses by components

Components of net losses of emigration as a percentage of GDP

- El Salvador – United States (2010)



Source: Authors' calculations based on Córdova et al (2012) and Banco Central de Reserva (BCR)

Net losses by components

Net losses by components based on MASC function

- The loss of labor income in the country not produced by Salvadorans living in the United States equals 16% of GDP in 2010
- The loss of net asset income reached 5% of GDP in 2010
- The full extent of the losses reached 21% of GDP in 2010
- The gain obtained by not to fund consumption reached 27% of GDP in 2010
- The remittances represent a gain of 16% of GDP in 2010
- The sum of these gains reached 43% of GDP in 2010
- Finally, emigration results in a net gain estimated at 22% of GDP in 2010.

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Salvadoran economy dependent on remittances and implicitly of emigration

Main Conclusions

- Importance of remittances
- Sustainability
- Implicit dependence of emigration
- Vulnerable place -> variable beyond the control of El Salvador
- Dynamics and impacts of migration -> crucial for making public policy decisions
- In this line the UNPD (2005: 139) pointed out "(...) the principal wealth El Salvador can count on is its people, and it includes not only those living within the national territory, but also the people living in the rest of the world. To take advantage, however, is essential to invest heavily in quality education and the establishment of a modern system of technology and innovation"