851

RECENT DEVELOPMENTS IN MEXICO AND THEIR ECONOMIC IMPLICATIONS FOR THE UNITED STATES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-FIFTH CONGRESS

FIRST SESSION

JANUARY 17 AND 24, 1977

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
91-139 WASHINGTON : 1977

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

RICHARD BOLLING, Missouri, *Chairman*
HUBERT H. HUMPHREY, Minnesota, *Vice Chairman*

HOUSE OF REPRESENTATIVES	SENATE
HENRY S. REUSS, Wisconsin	JOHN SPARKMAN, Alabama
WILLIAM S. MOORHEAD, Pennsylvania	WILLIAM PROXMIRE, Wisconsin
LEE H. HAMILTON, Indiana	ABRAHAM RIBICOFF, Connecticut
GILLIS W. LONG, Louisiana	LLOYD BENTSEN, Texas
OTIS G. PIKE, New York	EDWARD M. KENNEDY, Massachusetts
CLARENCE J. BROWN, Ohio	JACOB K. JAVITS, New York
GARRY BROWN, Michigan	CHARLES H. PERCY, Illinois
MARGARET M. HECKLER, Massachusetts	WILLIAM V. ROTH, Jr., Delaware
JOHN H. ROUSSELOT, California	

JOHN R. STARK, *Executive Director*
COURTNEY M. SLATER, *Assistant Director*
LOUIS C. KRAUTHOFF II, *Assistant Director*
RICHARD F. KAUFMAN, *General Counsel*

ECONOMISTS

WILLIAM R. BUECHNER	KENT H. HUGHES	PHILIP MCMARTIN
G. THOMAS CATOR	SARAH JACKSON	RALPH L. SCHLOSSTEIN
WILLIAM A. COX	JOHN R. KARLIK	GEORGE R. TYLER
ROBERT D. HAMRIN	L. DOUGLAS LEE	

MINORITY

CHARLES H. BRADFORD — STEPHEN J. ENTIN — GEORGE D. KRUMBHAAR, Jr.
M. CATHERINE MILLER — MARK R. POLICINSKI

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

GILLIS W. LONG, Louisiana, *Chairman*

HOUSE OF REPRESENTATIVES	SENATE
LEE H. HAMILTON, Indiana	JOHN SPARKMAN, Alabama
MARGARET M. HECKLER, Massachusetts	LLOYD BENTSEN, Texas
JOHN H. ROUSSELOT, California	EDWARD M. KENNEDY, Massachusetts

CONTENTS

WITNESSES AND STATEMENTS

MONDAY, JANUARY 17, 1977

MONDAY, JANUARY 24, 1977

SUBMISSIONS FOR THE RECORD

MONDAY, JANUARY 17, 1977

MONDAY, JANUARY 24, 1977

RECENT DEVELOPMENTS IN MEXICO AND THEIR ECONOMIC IMPLICATIONS FOR THE UNITED STATES

MONDAY, JANUARY 17, 1977

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTER-AMERICAN
ECONOMIC RELATIONSHIPS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 345, Cannon House Office Building, Hon. Gillis W. Long (chairman of the subcommittee) presiding.

Present: Representatives Long and Hamilton.

Also present: Kent H. Hughes, Sarah Jackson, and John R. Karlik, professional staff members; Michael J. Runde, administrative assistant; and Mark R. Policinski, minority professional staff member.

OPENING STATEMENT OF REPRESENTATIVE LONG, CHAIRMAN

Representative LONG. The Subcommittee on Inter-American Relationships will come to order.

Today we are starting a series of hearings on recent developments in Mexico and their economic implications for the United States.

Gentlemen, we are particularly appreciative of you and our audience coming today, in view of the fact that I understand this is the coldest day that Washington, D.C., has had in 38 years, and that is not counting the wind-chill factor.

I think this meeting is particularly timely. The new administration in Mexico of Jose Lopez Portillo has just taken office and the new administration of Jimmy Carter about to be installed here in Washington. Now is a good time to look at the situation in Mexico, including the prospects for the future and the implications for the United States.

It is often said that the American press fails to give sufficient attention to Latin America. We all know that that simply has not been true as far as Mexico is concerned. The surprising, sometimes even disturbing, recent developments in Mexico have garnered our attention and the attention of the media for a very good reason.

As an immediate neighbor, as a vital trade partner for the United States, as a prime location for United States investment, as a tourist mecca, even as a new home for many Americans, Mexican events are bound to draw our attention.

This is especially the case when the turn of events breaks the accustomed pattern. This certainly happened last year. For example, after 22 years of an absolutely stable dollar exchange rate, the Mexican peso was set free and suffered a swift devaluation. There seems to be a loss of business confidence and a sharp downturn in the rhythm of economic growth.

As one of its final acts, the outgoing Mexican administration ordered a substantial land expropriation and redistribution. Some Americans believed that bloodshed was in the offing; discontent and uncertainty seems to have replaced the previous confidence and growth.

The purpose of today's hearing is to explore what happened in Mexico last year and try to determine what it means for the future of both countries.

Perhaps the events of the recent past can be interpreted as a part of Mexico's long revolutionary tradition, a heritage that the world recognizes, I believe, and respects.

The question still remains: What are the implications for the future? And, more particularly, how will these developments affect the interests of the United States. This, of course, is our major area of concern.

Relations between the United States and Mexico are generally good and both countries have benefited from a long history of close interchange. Thus, we are looking at Mexico not with an eye to point out difficulties or in any way to second-guess their policymakers; nor, are we looking at Mexico paternalistically. Rather, we want to have the kind of substantive information that will allow us to plan the future relationship sensibly, recognizing the interdependence that exists between our two economies.

Although new administrations will control both of our countries, we have at least the outlines of the prospective economic policies to be followed and we should consider how they are likely to mesh. Still the focus of our hearing is on Mexico. We are looking forward to learning from our distinguished witnesses what they see to be the problems and prospects of that country and the implications for the United States.

The second hearing to be held in this same room next Monday will consider the impact of recent events on that region of the United States which borders Mexico. Obviously, since that region is so closely involved with Mexico, there may well be special problems that ought to be dealt with.

While our focus is on economic events and their implications, we certainly recognize that it is impossible to make a clean separation of economic reality from the social and the political context in which the economy functions. I am sure that our witnesses will not try to draw the line too clearly.

I would now like to introduce our very distinguished panel. Beginning on my left Mr. Al R. Wichtrich is the president of the American Chamber of Commerce of Mexico, in Mexico City. This, I think is an especially good position, from which to tell us about the climate for the United States business in Mexico.

Mr. Clark W. Reynolds, is a professor of economics, Ford Research Institute, Stanford University. He has studied the Mexican economy from an academic viewpoint and his specialty is political economy and institutional relationships.

Mr. Redvers Opie is an economic consultant in Mexico City whose newsletter I understand has been one of the most accurate predictors of economic development in Mexico during the past year. In his many-sided career, Mr. Opie has been both a diplomat and a specialist in monetary and financial areas.

Finally, James W. Wilkie, a professor of Latin American history, is a historian of Mexico; and I expect that he will look at the recent events of Mexico in the context of Mexico's long traditions and history.

Our format for today will be for each witness to give a brief opening statement and then we would make your entire statements, without objection in each instance, as a part of the record. I urge each of you to keep your oral statement to about 15 minutes so that we will have an opportunity for an interchange of questions from Representative Hamilton and myself, and other subcommittee members as well as an interchange among yourselves. Once we do get to that stage, I encourage each of you to feel free to comment on the views of other witnesses.

I would like for Professor Wilkie to lead off, followed next by Mr. Opie and then Professor Reynolds and Mr. Wichtrich.

STATEMENT OF JAMES W. WILKIE, PROFESSOR OF LATIN AMERICAN HISTORY, UCLA

Mr. WILKIE. Thank you very much.

By way of historical introduction, I would like to stress the view that every few years Mexico appears to undergo a final crisis of the revolution that began in 1910.

Every few years, then, the eye of the United States goes to Mexico wondering if the final crisis is upon us.

What has happened is that the revolutionary family which governs Mexico under a one-party system is able to—within the wings of right, center, and left of the party—resolve these crises, pull the family together by working the problems out from within, and to keep the party in power. Thus in 1940, what looked like would be a very bloody situation was resolved when President Cardenas—1934–40—after the expropriation of the oil, became much more conservative and looked for a way to bring a new President into power who would restore U.S. confidence in Mexico and restore the Mexican confidence in Mexico.

We saw similar crises after activist Presidents, for example, by the end of the 1950's when after so much emphasis on economic growth there was a threat of general strikes in 1958–59, and a series of strikes did occur so that it looked like the Mexican political system would come tumbling down.

President Lopez Mateos—1958–64—by shifting Mexico's emphasis toward more social benefits for the people, less subsidies for business and industrial development, was able to restore confidence again in the system, not without a flirtation for support of Castro's Cuba. He did ultimately become quite middle-of-the-road and pull the system together again.

In my written testimony you will see that we have a series of a pendulum effects where activist Presidents try to do a great deal—especially by expropriating—nationalizing certain aspects of the Mexican system in order to make a name for themselves—which then requires consolidation by subsequent administrations.

The most recent crisis—and it is almost what I call an apparent crisis, has occurred again to maintain the one-party system in power—it is through a series of crises whereby younger generations push themselves to the top. Each generation has to find something the matter with the system. Since the President holds power for only 6 years, and can never be reelected, by the end of 6 years he has worn his welcome out and the new generation which has discovered the crises is able to push its way to the top.

From the outside it looks unstable. From the inside it works, if not smoothly, usually quite well; and the most recent crisis under President Echeverria only seemed to revolve around land reform.

The main test of revolutionariness in Mexico is how much land can be redistributed to the masses. In 1940 Cardenas said he had distributed all the land, so during the forties and the fifties, you have less land reform. But, with the shift to social affairs again in 1960, Lopez Mateos and subsequent Presidents have each found a great deal of land to distribute. They have done this by not renewing certificates of ineffectability, originally granted by Cardenas, the "great leftist President of Mexico," who realized that Mexico would have to feed its urban population by protecting large cattle ranches from land reform. Cardenas, who distributed more land than any other President, granted certificates of ineffectability that ran for 25, 30 years. Beginning with Lopez Mateos, Presidents have not been renewing these certificates of ineffectability, thus "finding" land they can distribute.

For a time observers thought Mexican land reform was quite productive. Now it appears it is not as productive as once thought because the private sector was selling much of its produce to the Ejidatarios, who had guaranteed sales to the Mexican Government. This distorted the data as to who was producing what.

In a way, land reform makes sense in Mexico because since Mexico does not have a social welfare and unemployment system it has to provide labor-intensive occupations. On the one hand distribution of land is one way of providing such jobs. On the other hand, Mexico must feed itself; and it is estimated that by 1980, 1985, 1990, Mexico will not be able to feed itself. Mexico is already importing wheat, milk, and corn, for example. It is working itself into a long-range position, where it is going to be dependent upon the United States for imports of food.

Many officials in the new Lopez Portillo government recognize this production problem and are now talking about an end to the land reform once again, arguing that land reform cannot continue because it is working against the interests of the urban folk, who are going to demand their right to eat inexpensively in contrast to the worker who has demanded the right to the land he works.

The new government of Lopez Portillo is moving away from external emphasis on the third world activism that was sponsored by Echeverria. It recognizes that it must resolve internal problems, and, for example, is moving toward a bureaucratic reorganization, as is the United States under President Carter. In a sense, as I argue in the written testimony, what happens in the United States is crucial to what happens in Mexico; and perhaps this is a better way to look at the issues rather than looking at Mexico and its implications for the United States. Perhaps it is really the United States and its framework that sets the stage for events in Mexico. If Mexico is trapped in the sphere of influence of the United States, then Mexico will try to reorganize its government.

While the United States and Mexico have been very successful in working out problems on the diplomatic front in the past, the new problems are not diplomatic in nature at all. They involve economic relations between those two countries, including the immigration of Mexicans out of Mexico who cannot find work. The problems arise because there is not enough land to go around, and because industry is not keeping up with the number of people coming on to the job market, and because of U.S. policy toward Mexico, implicit if not explicit—for example, when the United States passes a new tax law, and limits tax deductability to only two conventions outside the United States every year, this has an immediate impact on Mexico which loses thousands of hotel bookings. In regard the latter problem, then, with sudden United States changes in policy, Mexico cannot plan on the long-term because suddenly the United States has changed its policy.

In short, we must first of all understand that in Mexico the concept of permanent revolution—open-ended revolution under the aegis of the state—does not mean revolution in a violent or communistic sense, rather revolution is a code word for development. By working within this idea of the revolutionary myth and the revolutionary party, under the one-party system Mexico has created the most stable political system in Latin America and has been able to operate without too much torture and without too much political censorship of newspapers.

If we recall that the Mexican crises are only apparent crises, we will come to expect them under an activist president with the realization that crisis will subsequently subside as the less active president who follows will begin to solve Mexico's problems by seeking moderation after an activist president, then we can see that perhaps it is in the United States' best interests to make it easy for Mexico to solve its own problems. This means that we can't simply sit back and say that Mexico is sliding toward communism, as 76 Congressmen attempted to do recently. It means that we must be concerned in resolving migration problems and helping Mexico along the way. The United States can do this, for example, by letting every American tourist who goes to Mexico bring back tax-free, as many goods as he would like to bring back. This would be a great boon to the Mexican tourist economy and it would mean a special relationship between Mexico and the United States.

In the United States we have talked a lot about special relationships in this hemisphere, the relationship of the United States with Latin America. I think the relationship with Latin America is overdrawn and overdone. We have no special relationship with Latin America other than under the Monroe Doctrine, and that involves an outdated policy which is not helping the United States or Latin America because it offers rationale for interference in Latin American affairs.

But there is a special U.S. relationship with Mexico because of the wide, relatively unpatrolled border. If the United States does not want to have thousands and thousands of Mexicans disrupting the U.S. labor market and social welfare systems, the United States has to encourage Mexico to develop the tourism and exports necessary for Mexico's health. Thus, the United States could remove most of the tariff and import controls on fruits, meats and vegetables, which continually vary so that, for example, one year certain grades of tomatoes suddenly cannot come into the United States after they have been planted and harvested. Such varying policy works a tremendous hardship on Mexico. The United States should take away all these controls and let Mexico sell whatever it can to the United States, thus opening the door to economic expansion in Mexico. I think in the long run U.S. interests would be best served by helping Mexico help itself.

Thank you.

Representative LONG. Thank you very much, Mr. Wilkie. That was a most provocative statement with a good historical perspective to it. Without objection, your prepared statement will be printed in the hearing record.

[The prepared statement of Mr. Wilkie follows:]

PREPARED STATEMENT OF JAMES W. WILKIE

Conflicting National Interests Between and Within Mexico and the United States

INTRODUCTION

Historically U.S.-Mexican relations have involved the diplomatic resolution of common border problems causing temporary tension between the two countries,[1] but with the advent of the 1970s, new kinds of tensions that reflect structural changes in the affairs of both countries pressage the rise of issues in the 1980s and 1990s that are not susceptible to traditional diplomatic solutions that have marked U.S.-Mexican relations in the past. In this light students of Mexico should consider dealing specifically with conflicting "national interests" between and within Mexico and the United States, the dimensions of which are only tentatively sketched here. In short, implications of Mexican developments for the United States represent only one side of the coin—the other side involves the implications and impact of recent developments in the United States as they influence Mexico and in turn react back upon the United States. The resultant symbiotic relationship involves a series of apparently unresolvable dilemmas which have to be worked out within each country before they can be begun to be resolved between the two countries.

THE TRADITIONAL "DIPLOMATIC APPROACH"

Since the World War II binational border cooperation has been undertaken to resolve such issues as the threat of animal disease (foot-and-mouth disease, 1974; screwworm fly infestation, 1962 and 1966; and horse sleeping sickness, 1971) as well as settlement of historical issues involving nineteenth-century

---

[1] See Lyle C. Brown and James W. Wilkie, "Recent United States-Mexican Relations: Problems Old and New," in John Braeman, Robert H. Bremner, and David Brody (eds.), *Twentieth-Century American Foreign Policy* (Columbus: Ohio State University Press, 1971), pp. 378-419.

boundary claims and funds (Chamizal tract, 1967; and Pious Fund to support the Catholic Church in the Californias, 1967), division of the Colorado River waters (1945), desalination of water delivered to Mexico (Colorado River, 1965, 1973; and Rio Grande, 1966). coastal fishing agreements (1967, 1976), incursion of U.S. citizens who steal Mexico's archaeological, historical, and other cultural properties for sale in the United States (1970), and joint U.S.-Mexican action to supress the smuggling of marijuana and narcotics into the United States (1970),[2] with possible provision for exchange of prisoners to serve out terms in their own country (1976).

Even the bracero migration of temporary labor was subject to traditional diplomatic negotiations between 1942 and 1947 as well as between 1951 and 1964. In the early 1970s Mexico was again pressing for a new bracero treaty but withdrew its demands after the *Washington Post* revealed upon the eve of President Echeverria's October 1974 meeting with President Ford that Mexico had discovered huge oil reserves in southeastern Mexico — Echeverria apparently feared that any negotiation for a new bracero treatment would eventually involve exchange for petroleum sales to the United States at preferential rates detrimental both to Mexico and his OPEC friends.

STRUCTURAL ISSUES TO THE FORE: ORIGINS

Mexican presidential regimes have more often than not paralleled in style and thrust of governmental policy their counterpart regime in the United States. Thus in spite of different ideologies in and problems between the two countries, the presidency of Calles came to accept the tone of conservatism espoused by the presidency of Coolidge, e.g., land reform being cut back and U.S. petroleum rights protected. Presidencies of Roosevelt and Cardenas came to be compared for the deals for the "people," Roosevelt and Ambassador Daniels quashing a move within the Democratic administration to bring Mexico to its knees in retaliation for expropriation of U.S. land and oil rights. President Avila *Camacho* cooperated closely with Roosevelt in the World War II effort, laying the basis for the "era of good feeling" between Presidents Truman and *Aleman* who as a symbol of good will even exchanged captured flags from the Mexican-American War. Differences about the conduct of the Cold War to the contrary, Presidents Eisenhower and *Ruiz Cortines* governed under the image of father to citizenries enjoying economic stability. President Kennedy and *Lopez Mateos* simultaneously offered a shift to social concerns for their respective countries, each appearing as a social reformer after years of emphasis on economic growth. With the presidencies of Johnson and *Diaz Ordaz*, troops were called out in both the United States and Mexico to repress students who objected to their country's respective international policies, U.S. students refusing to die for nothing in Vietnam's civil war and Mexican students refusing to support Mexico's bid for international recognition through hosting the Olympics.

Most recently Presidents Nixon and *Echeverria* set out to reorganize giant bureaucracy to make it more responsive to presidential control, Echeverria seeking to follow the Johnson upheaval (accepted by Nixon) which gave the federal government new and vast influence over education, health, and public welfare activities. With all of Echeverria's shortcomings, at least he tended to foster world law in contrast to Presidents Johnson and Nixon who tended to violate international and national law to wage war for reasons involving protection of their own pride—neither wanting to be the first president to "lose" a war. Not only was the Vietnam War a major cause of U.S. inflation, but it lapped over into Mexico which sells to and imports from the United States over two-thirds of its international trade. At the same time, Echeverria's big spending policies were undertaken in part to offset an internal depression caused by his administration's initial slowdown in public expenditure while it sought to turn away from economic growth—if necessary—in order to assume greater social justice. Under recent U.S. presidents and under Echeverria the United States and Mexico each underwent "legal revolutions," both countries passing a deluge of unworkable and ill advised laws to control and regulate

---

[2] See Lyle C. Brown. "The Politics of United States-Mexican Relations: Problems of the 1970s in Historical Perspective," in James W. Wilkie, Michael C. Meyer, and Edna Monzon de Wilkie (eds.), *Contemporary Mexico* (Berkeley: University of California Press, 1976), pp. 471-493.

the private sector. Not only have the laws been in the main incomprehensable but they have enmeshed all concerned in a sa of useless paperwork and red-tape hardly "managed" by swollen bureaucracies.

Although the analogy of similarity between U.S. and Mexican presidential regimes should not be pushed too far, nevertheless it is clear that Mexico's problems did not all originate under the strange and unstable presidency of Echeverira (perhaps less strange and more stable than those of Johnson and Nixon, if we judge by the chaos each left behind). In short, the essence of governmental policy in both countries has followed remarkably similar lines, as in the case of Johnson and Diaz Ordas who preferred force to reason—the fact that men of similar inclinations have tended to be in office at the same time has made it easy to justify policy because others (and close neighbors at that) are doing the same thing. It has often been remarked that Mexican presidents have been selected to meet the demands of their times, but it could be argued that they adapt to the needs of their time, the United States falling under the same pattern as Mexico.

STRUCTURAL ISSUES IDENTIFIED: 10 DILEMMAS

1. Mexican dilemmas

a. *Mexico's "national interest" to encourage tourism vs. "national interest" to develop industrialization.*—Mexico's biggest foreign exchange earnings come from U.S. tourism to Mexico, tourism predicated upon "bargain prices" and "quaint" living style that is uniquely Mexican. Yet Mexico's drive for industrialization has not only tended to raise the cost of living but also to introduce modern, mass-produced life style, making Guadalajara little different from Kansas City (if we may exaggerate the point). Industrialization is becoming increasingly costly as it becomes more technologically oriented to keep up with advances, the "easy" earlier stages having passed. And the Mexican middle class appears determined to adopt the latest U.S. styles, e.g., advertised on live television broadcasts of U.S. football games, consumerism geared to import economy. Ideally tourism and industrialization might go side by side but in practice prospects point to antithetical results. (Echeverria attempted to limit tourist stays to less than 30 days but as Mexico priced itself out of the market, he permitted a return to the traditional 180-day tourist authorization.)

b. *Labor intensive vs. capital economic activity.*—Mexico cannot afford the U.S. practice of displacing workers with automated equipment because it does not have a system of unemployment insurance to cover the social costs of such economic advancement, yet Mexico must cultivate that practice, e.g., to provide efficient telephone communication as Mexico City struggles to live with its overpopulation. (In contrast to the United States, however, the government of Mexico does provide work for college graduates by creating a never ending stream of government study commisisons with their own trust funds.)

c. *Need for U.S. investment vs. loans.*—With Mexico's capital needs outstripping domestic resources and excess of imports over exports, Mexico under Echeverria (1970-1976) sought to regulate private investment while at the same time placing more emphasis on gaining more foreign credits from abroad, mainly the United States, especially as foreign investment rates declined and flight of domestic capital increased in the face of governmental caprice. The loans have never been as efficiently used as planned, however, negating any hoped for gains from public sector control over foreign funds—private sector efficiency tends to be more productive and less inflationary in its national impact.

d. *Need for diversified trading partners throughout the world to achieve "economic independence" and insulation against U.S. recessions vs. reliance on its U.S. neighbor especially during times of economic crisis.*—Echeverria's planned trade diversification was damaged by world economic slump (caused by OPEC price rises that compounded problems of the Echeverria recession of the early 1970s), thus making Mexico more dependent upon its *closest* trading partner. At the same time as social and economic experiments caused flight of capital to the United States, Mexico found itself also to be in need for cheap imports of milk, wheat, and corn, etc. from its northern neighbor. Ironically, recession means less diversification of trade partners.

e. *Need for urban food and export food vs. need to distribute land.*—Under the official *Partido de la Revolucion Institucionalizada* (PRI), land distribution has served as the major test of "revolutionaryness" for each leftist-oriented president since the 1930s. By passing the test periodically in order to assure that at least about half of the agriculturally employed population always holds land under the land reform law, the PRI justifies its continued one-party rule. Lands are granted in community held form, which has never prospered and does not show much prospect to do so. After the rhetoric Echeverria (who did not distribute as much land as his two immediate predecessors but who did try to distribute the better lands located in northwest Mexico), the government is again talking of the criteria of efficiency in production instead of the "worker's right to own the land he works." [3]

f. *Need for open U.S. border as escape valve for excess labor vs. need to retain in Mexico the ambitious rural worker.*—Too often the escape value drains the best rural workers out of Mexico, resulting in a long-term accumulation of a less competent rural labor pool. Ironically while Mexican governments demand rights for Mexican workers in the United States, they have closely curtailed the rights of U.S. citizens to work in Mexico.

2. United States dilemmas

a. *U.S. "national interest" to have a cheap reserve labor pool vs. "national interest" to close the frontier to "excessive" immigration from Mexico.*—Although the U.S. government now feels that temporary labor is not much needed, in the past it has felt differently and may do so again in the future. In the meantime, the illegal influx of laborers (many of whom remain permanently) does indeed threaten minimum wage provisions and place an added burden on U.S. health and welfare functions.

b. *Need to expand exports to Mexico vs. need to control imports from Mexico.*—Perhaps because Mexico has such numerous and high barriers to protect its industry (which is often also subsidized by the Mexican government), the U.S. government in the main has felt that its sudden changes in import quotas and taxes (on such items from Mexico as meat, fruits, vegetables, and most recently shoes) are justified. Nevertheless, these sudden changes do not allow Mexico to develop very national plans and encourage the kind of unstable reactions critized in 1976 by 76 U.S. Congressmen.[4] Although it could be argued that Mexico's protectionism is best met by U.S. protectionism, since Mexico's industry is so penetrated by U.S. investment, it can be considered to be an extension of the U.S. economy—and it is so considered by many Mexican observers of all political shades.

c. *U.S. "national interest" to have a healthy, stable neighbor on its southern border vs. "national interest" to keep Mexico politically and economically dependent upon the United States as it seeks to retain its role of world leader.*—With Echeverria's plan to make Mexico a leader and conscience of the "Third World" against U.S. "abuse of power," and with Echeverria's at one point apparently unable to defeat rural and urban guerrillas, the U.S. military probably drew up "contingency plans" for sending troops to Mexico. When lecturing at the National War College in 1973 and again in 1974 officers back in school to qualify for new promotions repeatedly asked me if it were not in the "national interest" of the United States to send troops to Mexico. My response was as follows: It is in the U.S. "national interest" to have stable friends where intervention is not necessary. Although it appeared to be in the U.S. best interests to intervene in Mexico in 1916-1917, intervention accomplished nothing (as in Vienam) and withdrawal permitted Mexico to gain it own experience with success and mistakes that would eventually make it into one of the most stable countries in Latin America. Had the United States continued to intervene militarily in Mexico as it did in Haiti, the Dominican Republic, and Nicaragua, we could expect to see the same kind of dismal results. Have we not yet learned that we cannot create the "great society" in the United States let alone force our ideas of it on others?

---

[3] For further discussion, see James W. Wilkie, "Pulling, Hauling Mark Mexico's Land Reform," *Los Angeles Times,* December 26, 1976, p. VI-2.

[4] "Open Letter to President Ford from 76 United States Congressmen of Both Parties Denounce Mexico's Slide to Communism under President Echeverria," *New York Times,* August 16, 1976, reprinted from the *Congressional Record,* August 10, 1976, p. E4499.

d. *The "failure" of the U.S. Alliance for Progress vs. the idea for a new "Marshall Plan for Mexico.*—Although the Alliance did not "fail" (it could never have succeeded in the short time allotted),[5] and Mexico did not receive much assistance because it proudly believes that it can handle its own development, it has been suggested anew that money alone can solve Mexico's problems.[6] As Mexico's new president, Jose Lopez Portillo, has pointed out, the Mexican government may not need new funds as much as it does governmental reorganization to ease bureaucratic chaos. Mexico cannot now afford many more credits and loans, and it does not want U.S. or any foreign "experts" poking around the country telling it how to "recover" or "take-off." It can justifiably argue that if it were accorded a true "special relationship" owing to its border with the United States, its economy would not be subject to the whims of the U.S. Congress, which, e.g. by limiting the number and conditions under which U.S. citizens can attend tax-deductible foreign conventions, has most recently dealt a serious blow to the recovery of Mexico's tourist industry.

THE IMPLICATIONS OF THE STRUCTURAL DILEMMAS

Clearly the issues exemplified above move beyond the traditional realm of diplomatic negotiation. How can conflicting international issues be resolved if conflicting national issues for both countries have not been articulated? What bodies might be involved in resolving the U.S.-Mexican dilemmas created by the continguity of a rich country and a poorer country.

Although it is common in the United Sttes to denigrate the idea of "permanent revolution" in Mexico (not only because the U.S. tradition is based upon "evolution" but because the left likes to talk of Mexico's "frozen revolution") in reality the word "revolution" in Mexico is a code word for development; and massive social and economic change, which indeed has taken place, leads to "cries" that justify change within the political system.[7] Thus now that the crisis of Echeverria has been identified, the country's new leaders will turn away from trying to lead the third world, and as they slow down land reform, they will seek an "alliance for protection" in order to ease inflationary pressures caused by too little output in the face of heedless government expenditures. Confidence in the Mexican system has already been greatly restored as the new president has ended the practice of governing by rhetoric, the official party rallying to provide a periodic new image in order to assure its continuance in power.

For much of the Mexican population the "myth of the continuing Revolution" is not a myth: The Poverty Index for Mexico declined rapidly during the 1960s even in Mexico City where the Index had not declined during the 1950s. The national Index (Table 1) shows that percentage decline reached its fastest rate ever (25.1 per cent) between 1960 and 1970, a fact obscured by the largely irrelevant debate over Mexican income distribution. Regardless of the fact that the income may have become relatively more concentrated, the middle classes and masses feel themselves to be better off in absolute terms. And it is the increase in their consumer purchasing power that helped fuel inflation. Although first-time visitors may be appalled at Mexico's "poverty," anyone who has walked the streets of Mexico during the last twenty years cannot help but see the relative affluence of today. The problem of Mexico does not involve so much redistributing income as slowing down the mad rush for consumer goods and the better life which is putting a tremendous strain on the ability of Mexico to produce or import goods when capital accumulation is needed to build Mexico's economic infrastructure. Disillusion with consumerism led the Echeverria government to sympathize with the Club of Rome's "no growth" philosophy precisely in order to emphasize social justice instead of economic investment. Ironically, however, the masses demand the growth which will allow them to buy the goods that will change the face of Mexico so that it is less desirable for tourism.

---

[5] For quantitative assessment, see James W. Wilkie, "The Alliance for Progress and Latin American Development," in Wilkie, *Statistics and National Policy* (Los Angeles: UCLA Latin American Center Publications, 1974), pp. 409-431.

[6] John Parke Young, "Why Not a U.S. Marshall Plan for Mexico?" *Los Angeles Times*, December 8, 1976, p. II-7.

[7] For development of this concept, see James W. Wilkie, "Mexico: Permanent 'Revolution,' Permanent 'Crisis,'" *Los Angeles Times*, December 5, 1976, p. VIII-17.

TABLE 1.—*Mexico's poverty index, 1910–70*

Census year:	Percentage of population with poverty characteristics (average)
1910	56.9
1921	53.1
1930	50.0
1940	46.6
1950	39.4
1960	33.1
1970	24.8

Source: James W. Wilkie, The Mexican Revolution: Federal Expenditure and Social Change Since 1910 (2d ed.; Berkeley: University of California Press, 1970), and 1970 population census data.

In sum, change within and cooperation between Mexico and the United States means that there are few "solutions" to common problems. With the articulation of dilemmas here it means that the two countries must come to understand each other better and to realize that all actions involve uncomfortable side effects that may well distort major "national interests" of both countries. If the United States were to recognize that it has a "special relationship" with Mexico (in contrast to the Americas as a whole where the special relationship tacitly or not has involved the outdated Monroe Doctrine), it would help Mexico help itself by removing tax deductible restrictions on U.S. tourism to Mexico (including the $100 limit per person and restrictions on conventions in Mexico) and open the border to Mexican trade without restrictions. It is only by stimulating the Mexican economy that Mexico's "excess labor" will remain and even perhaps return to Mexico. The good will of such gestures would not only work to give Mexico benefits that it feels are rightfully necessary to help itself, but also work to traditional diplomatic advantage as well. The letter sent by 76 Congressmen to President Ford expressing their concern over "communism in Mexico" does not show the kind of understanding necessary to even begin to look for a basis for resolution of Mexico's problems, which are also those of the United States.

APPENDIX A

[From the Los Angeles Times, Sun., Dec. 5, 1976]

MEXICO: PERMANENT "REVOLUTION," PERMANENT "CRISIS"

(By James W. Wilkie)*

There was an air of crisis last week as Jose Lopez Portillo took over as president of Mexico for the next six years. Economic troubles, a sagging peso, and a controversial expropriation of land for the poor by his predecessor had combined to produce a picture of a nation divided and floundering.

How serious is Mexico's plight? Does the new president, as rumored, face a real prospect of overthrow from right, left or center?

It may help to recall that every few years, the press portrays a "final crisis" of the Mexican political system that claims to be permanently revolutionary. In the end the "crisis" seems to pass almost routinely, and it is easy to forget, notonly that crisis is a way of life for most governments, but that since 1910 Mexico's so-called "one-party democracy" has been designed to respond to crisis by adjusting the system so it does not collapse.

Theoretically the political process has been institutionalized in Mexico to provide a way to select the official-party candidates in a highly competitive atmosphere from an ever-increasing pool of skilled leadership. Because potential conflict is resolved within the official party, with left, center, and right wings (advocating more, the same, or less *social* action, respectively) each benefiting by reaching a consensus about which of Mexico's conflicting needs must be met most urgently, the official party is able to justify its permanence in power.

*Professor of Latin American History, UCLA.

Thus, the Mexican system offers political stability so that social and economic development can be continued. Mexico's Party of Institutional Revolution (PRI), which formally dates back to 1929 under different names, claims credit for having galvanized Mexico's "economic miracle" (culminating in the 1960s in GNP growth at one of the highest rates in the world) while poverty for the masses has decreased with astounding rapidity since 1940. With this apparent success, it is no wonder that the Mexican political model has appealed to some developing countries.

In practice, however, the Mexican political model does not work smoothly. And since the political system mobilizes behind the scenes rather than openly, observers, citizens, and participants alike must rely on limited information and a great deal of rumor to understand how problems are resolved.

The Mexican press can report or investigate major behind-the-scenes events only at the risk of losing government advertising subsidies, as well as "rights" to purchase subsidized newsprint. (Mexican radio and television is virtually useless when it comes to reporting of political news.) In any case, PRI politics must remain secretive, because if problems are solved publicly (that is, outside the party), it would be hard to justify the PRI's existence as the official party required to monopolize power for the sake of keeping politics out of the process of economic development.

In a sense, then, the Mexican political model encourages crisis for these reasons:

To develop a bargaining position and rise to the top within the one party that monopolizes power, new and would-be leaders must identify problems for solution, often scouring the country for social and economic issues generated by interests that may be relatively unorganized in political terms.

Past bargains between the left, center, and right wings of the party break down under the onrush of events.

Political leaders must appear to be in the forefront of changing worldwide climates of opinion—new problems demanding new solutions which entrenched leaders resist in order to implement their own promises.

In a secretive system it is possible to tell when the limits of bargaining power have been reached only when those affected by governmental decisions begin to cry out that their interests are being severely or irreparably damaged. These interest groups make their case to the government, and provide support to one or another wing of the official party by, for example, taking out full-page ads in the daily press. Such ads traditionally provide a prime means of taking the political pulse of the country. The cost of the ads, and public scrutiny and debate as to their veracity, prevent the lauching of frivolous "public opinion" campaigns; the needed follow-through in money and energy are prohibitively expensive unless real issues are at stake.

Thus swings of "public opinion" can indeed bring to power new sets of leaders with each six-year, nonrenewable presidency—new leaders in the sense that they become "visible" as representatives of the different wings of the official party. In fact, if each wing did not regularly come to the fore, the official party would break up. And each wing can govern as part of the institutionalized revolution because the Mexican constitution of 1917 was written in the spirit of compromise, calling for active state power by the left wing, and also providing for continued existence of the private sector under the right wing.

It is illuminating to catalog some of the crises that the Mexican system has survived since the official party was formally established to prevent civil strife in 1929.

President Lazaro Cardenas (1934-1940) used active government intervention to overcome the "crisis of world capitalism" during the 1930s. Cardenas' programs to nationalize the oil industry, distribute lands to the peasantry, and organize the workers were made possible only by his explusion from Mexico in 1936 of former President Plutarco Elias Calles, who resisted such "radical" activities. By 1940, Mexico's center and right were in near open rebellion against left-wing activism, and after a bloody election which the official party may actually have lost, Cardenas turned power over to a hand-picked centrist, Gen Manuel Avila Camacho.

Avila Camacho, trying to assimilate Cardenas' reforms into the Mexican milieu, could not control bureaucratic corruption that had grown increasingly worse since the 1920s. The early 1940s brought an intellectual debate over whether or not the revolution had died, mainly because of that corruption.

The official party not only starved off the debate by "reforming" itself (primarily by a name change), but President Miguel Aleman (1946-1952) was able to capitalize in 1947 on antilabor sentiment hanging over from the 1930s to call out troops and brutally crush strikers in the nationalized oil industry.

By 1948 enough of the PRI left wing felt that the right wing had become too powerful in carrying out an industrial revolution that some challenged the system by splitting off to set up a Popular Socialist Party.

The centrist regime of President Adolfo Paor Cortines which followed (1952-1958) was centrist only in the sense that it did not push further to the right, but attempted to restabilize the system while claiming to fight corruption. Prolabor pressures had built up so much, however, that by 1958 the center and left demanded an end to the "excesses of the industrial revolution that sacrificed the masses to the capitalists," a phrasing that ignored the continuing expansion of social functions long accepted by all wings of the party.

Between July 1958 when Adolfo Lopez Mateos was elected and December when he took office, the country was gripped by a series of near general strikes that continued sporadically for several years to tie up communication of people, transportation of goods, and education of students. Lopez Mateos took Mexico to "the extreme left within the constitution," as he put it, and shifted governmental emphasis from the economic to the social to a degree unseen since the presidency of Cardenas two decades earlier. But counterpressures soon made Lopez Mateos moderate his leftist activism.

A turn to the right, then, was easy under President Gustavo Diaz Ordaz, who would take a firm step against internal "subversion" which threatened to destroy Mexico's international image as successful host of the 1968 Olympic Games in Mexico City. Like Lyndon B. Johnson, his neighbor to the north, Diaz Ordaz, elected in 1964, was to fight a near civil war against the student population that vowed to bring his regime to its knees. But Diaz Ordaz was also a centrist, except in the matter of civil rights.

Centrism was expected to dominate the Presidency of Luis Echeverria Alvarez, elected in 1970. On the one hand, Echeverria had been in charge of putting down the student protests of 1968; on the other hand, he had sought to woo students by bringing a generation of youth to high positions.

Internationally, Echeverira tried to capitalize on Mexico's tradition of achieving growth while also expropriating and distributing land to make Mexico a leader of the third world against U.S. "imperialism." But at home, his young technicians, swayed by no-growth theorists, were willing to accept a halt in economic growth if that were the price of finally leveling out inequities of income among the people. The result was recession, (compounded by the OPEC oil crisis) in which Mexico resorted to high borrowing and the highest reficit spending on recent record. Autos were taxed as "luxuries," and a 15% tax on restaurants and hotels hurt the middle class and sapped travel by Mexicans within Mexico. Tourism by foreigners also suffered from Mexico's inflation as well as the Jewish boycott of Mexico in retaliation for Mexico's pro-Arab stand in the United Nations.

The stage was set for "rebellion" by the center and right. The flight of capital abroad further eroded faith in a peso already battered by inflation, and helped precipitate the two recent devaluations. Imports soared past exports (in part because of erratic U.S. trade policies in the 1970s). Once again, the "final crisis" seemed at hand.

Echeverria, in a dramatic act to enshrine his place in history, intended his redistribution of rich farmlands in northern Mexico to alter the pattern of previous presidents who redistributed land only in poor areas. But this controversial move only added to Mexico's troubles; the economy sputtered as the country waited for a new "centrist president" to restore confidence in the system.

Bargaining positions were well-established, however, with the outgoing president linking his administration to the new through a legacy of unresolved problems, such as how to implement the new expropriation of rich lands.

Lopez Portillo, who took office Dec. 1, is a political economist, reflecting the PRI's realization that Mexico's problems are not so much political as economic. His immediate task will be to restore the value of the peso by restoring investor and tourist confidence. Over the longer term he must give order to the "legal revolution" that emerged during the last six years, when more major laws and regulatory legislation were passed than at any time in the

91-139—77——2

country's history. These laws—on population control and distribution, transfer of technology and i nvetment, and "reform of the land reform"—have threatened every interest group in some way while offering little but rhetoric in the way of implementation.

Lopez Portillo, known as the treasury minister who has sought to reassure the private sector, will relax the rules and regulations that have hampered business and economic growth.

If he does not respond to the demands of his epoch, this time nonleftist, the official party will shatter. The possibility has always existed that a president would wreck the Mexican political model by trying to force the will of one wing on the party and the country, but so far that has not happened. Odds are still that it will not, however fragile the party appears. If we see crises coming in cycles, we can sit back and wait to see how the next one will be managed even as we watch the present one work itself out.

—

APPENDIX B

[From the Los Angeles Times, issue of Sunday, Dec. 26, 1976]

PULLING, HAULING MARK MEXICO'S LAND REFORM

(By James W. Wilkie)*

Peasant "seizures" of land in northwestern Mexico and legal maneuvering over government expropriations have finally brought an age-old Mexican struggle to international attention. Rather than a portent of imminent civil strife, however, they are only the latest, and relatively nonviolent, chapter in two extensive land-reform programs that have shaken Mexico for more than 120 years.

Land reform has left Mexico something of a dilemma: Not only is there controversy over how to proceed in a complex situation, but there are serious practical questions about how best to fit the land to an ever-growing population.

When former president Luis Echeverria expropriated land on Nov. 30, his last day in office, he was trying to pass the main test of "revolutionariness" stemming from the promises of the "permanent revolution" launched in 1910. Ironically, he was accused of breaking up the big private farms (producing food for internal consumption and for export to the United States) that were the goal of Mexico's first land reform from 1853 to 1909.

That first reform was intended to redistribute land held outside the private-market structure in order to build a strong middle-class rooted in private land ownership. The government in the 1800s hoped to break up most of the land in *ejidos* (communally owned Indian lands) and land held by the church. Both types of land were considered "communistically" held for the good of their members rather than the good of the nation. Church estates were expropriated or forced to be sold during the following decades, but communally held land generally was untouched until the dictator Porfirio Diaz set out finally to distribute it between 1876 and 1909.

But by the time of Diaz, the rural model for Mexico had shifted from middle-class farmer to the U.S. example of large-scale landowners who could produce for export to spur national growth. In any case, the Indian who received land when the *ejido* was distributed did not have the resources to become a succesful market farmer or the knowledge of how to protect his new wealth; and he soon lost it through unwise or forced sales, "mortgage foreclosures," or though the land being declared "vacant" for lack of registration. Under the Diaz version of Mexico's land reform, then, over 25% of the county's land was transferred into the hands of a relatively few landowners, who in good U.S. "robber-baron" style amassed their holdings through intimidation and force as well as through laws tailored to their expansive needs. Such "land reform" may well have been in the abstract interest of nation-building, but it was certainly not in the interests of the rural masses.

---

*James Wilkie, professor of history at UCLA and chairman of the national committee on Latin American historical statistics, is the author of "Measuring Land Reform," a study of land redistribution in Latin America.

In the revolution of 1910-1917, Emiliano Zapata, the famous Mexican revolutionary, thought the first order of business was to redeem the rural masses who had lost their lands. But President Madero, the "Apostle of the Revolution," thought that order and legal processes had to be restored, and that land reform was only one of many pressing issues to be faced in a new democratic system. Nevertheless the idea of restoring lands to their former owners was written into the Constitution of 1917, and throughout the 1920s, men who had carried out land reform in the Valley of Cuernavaca for Zapata traveled the country to generate a demand that land be distributed in quantity.

Implementation of land reform was problematic for several reasons.

First, land could not be granted to individuals but only to communities, which could not mortagage or sell it. This protected the communal holdings from forced sales and mortgage foreclosures like those of the Diaz period. But without collateral, farmers could not obtain funds needed for market production, and often had to engage in subsistence agriculture.

Second, some major questions remained unanswered: Would the communal lands be worked collectively or individually? Who was eligible in the community to receive land, the "old residents" or the day laborers who came in to help seasonally?

Third, in the rush to distribute some lands, the government neither had (nor ever has had) the surveyors or the skilled manpower necessary to lay out all the boundaries; land struggles ensued both inside and outside the *ejido*.

Two laws in 1925 and 1926 made some progress toward resolving the first two problems, but all three have remained basically unresolved to this day. The Law of Ejidal Patrimony generally permitted each *ejido* to vote for either individual or collective operation; about 98% chose to work individual plots, inheritable provided they are properly worked and not abandoned for more than two years, sold, rented, or otherwise divided or used illegally. The Law of Agricultural Credit provided minimal government funds for loans to *ejidatarios*, but unfortunately peasants have all too often found themselves unable to repay the government. (Thus in 1973 the government cancelled $464 million in accumulated debts in order to make the 6 million peasants who had defaulted again eligible for "loans," actually subsidies.)

Through the 1930s, the Mexicans still felt that the country was underpopulated and that the land supply was inexhaustible in the foreseeable future. Under President Cardenas (1934-1940), more land was expropriated than by all previous presidents together — about 10% of Mexico's land — thus setting the standard for "revolutionariness."

Land distribution was not taken up again in earnest until 1959. But by then Mexicans had begun to realize that their population was out-rising the country's ability to feed itself. Some advisors questioned the policy of further distributing lands, even as presidents found themselves trapped by promises with which the ruling party has sought to prove its "revolutionariness" by espousing "land for the landless" and "the land should be owned by he who works it."

Irony and contradiction increased by the late 1960s. Getting land to redistribute often meant now renewing long-term certificates to big landowners who were producing abundantantly for export and to feed Mexico's population as output from the communally owned *ejidos* lagged. And fragmentation of plots, too samll to support their tillers, helped force communal farmers to turn over these "pulverized" lands to the local entrepeneur who, with his tractors and implements, became the new "*latifundist*" (defined by land reformers as any large land holder). To protect himself against land reform, the entrepreneur often titled the land among his family, in effect creating family-run "cooperatives."

By 1971 the problems of the *ejido* system could not be denied, and the official party of the revolution set out to "reform the land reform." This reform assumed that the *ejido* had failed because few had chosen the collective structure preferred by intellctuals who like the idea of directly linking Mexico's Aztec past with the present. Ignoring failures in collective and reform, the reform of the land reform encourages the *ejidatarios* to move away from individual plots in two ways: by working lands collectively; and by joining two or more *ejidos* to work together as cooperatives so that tractors could be used or rural industrial *ejidos* formed.

The new law did not go far enough for Echeverria, who in the end had to develop the interpretation that cooperation by family members who pool their lands is illegal, thus subjecting large family holding to distribution among the peasants who work the land. But this Echeverria interpretation, never clear in the law itself, is being challenged in judicial and administrative proceedings now that Echeverria is out of office.

Under Echeverria the problem of reforming the land reform reached crisis proportions. With about 40% of Mexico's land having been distributed since 1910 to nearly 60% of Mexico's population employed in agriculture, Echeverria decided to break the pattern since 1940 of distributing the poorer lands of Central Mexico. Throughout 1976 he began "resolving" to expropriate the rich lands of north-western Mexico. (This process allows various stages of consultation at the local and state level, and opportunity for judicial review before the final "execution" of the presidential resolution is carried out, usually years later by another president. Depending upon administrative and judicial decisions at the various stages, the land may or may not be occupied by the peasants who are the potential beneficiaries).

The private sector fought Echeverria with full-page newspaper ads arguing that big farmers had not violated any laws and that Echeverria's assistants had moved "illegally" by seizing land held and worked by the small farmer who was not involved in pooling of lands. (Expropriated lands are compensated for by minimal payments in long-term government bonds made worthless by inflation.)

In the meantime, Echeverria's self-contradictory program in other spheres had gotten Mexico into an economic mess requiring two devaluations of the peso this year.

In his attempt at government by rhetoric, Echeverria had (accidently or not) encouraged peasants to invade lands they felt to be worked illegally. Land invasions usually involve violence, but in this case there has been little trouble. Landowners and the private business sector in Mexico know that no government with a legal land reform can long permit invasions that challenge its authority. In addition, they noted that it is the minority private sector which produces the great majority of Mexico's food, and argued that even a reformed land reform had not been able to avert imports of corn, wheat, powdered milk, and other commodities.

As if all this were not complex enough, there was also the problem of the day laborers who flocked to the northwest to work on the large estates. They might hope for land, but they also know that most of them will be classified as ineligible "new residents." And since many have already left lands elsewhere, they suspect that land reform (however reformed) will mean a drop in production and fewer seasonal jobs. Moreover, many lose access to efficient private owners who employ them at relatively high pay. Like the day laborers of 1910 who did not gain much with land reform after 1917, the day laborers of 1977 will find it not in their best interests to support continued redistribution of land under the reforms of 1971.

The Mexican government, too, is divided about continued land reform. The "economic growth wing" of the official party recognizes that the crucial test of Mexico's ability to feed itself will come in the 1980s or 1990s. And they fear that if Mexican agricultural exports collapse even temporarily in new land reform experiments, the momentum for growth to support an increasingly urban country will be lost irretrievalby. The "no-growth wing" of the official party, which Echeverria represented, counters that life for the peasant will never be very prestigious or worthwhile unless ownership is more widely spread, and that this also would prevent too rapid an urbanization which would depress wages.

Mexico's dilemma over land is indeed complex; simple thinking and good wishes will not solve it. It may be fashionable to measure "revolutionariness" in Latin America by distribution of land, but the main benefit in Mexico is an intangible one. Ejidatarios may be poor, it is argued, but they are rich psychologically because they can walk with the pride of being land owners — one of the most coveted positions in Mexican history.

In the end, however, we must ask four questions:

At what point in urbanization will the increasing proportion of city dwellers claim that their right to food (inexpensive or not) outweighs the peasant's right to own the land he works?

Is it not yet obvious that population growth will outrun the amount of land available for agriculture?

Will land reform "reformers" in Mexico ever admit that they cannot achieve successful collectivization of agriculture without force in a country where the peasants are so individualistic?

When will observers realize that the test of "revolutionariness" now lies in changing urban economic structures, and not in stale rural debates?

Representative LONG. Mr. Opie, would you proceed in your own way.

STATEMENT OF REDVERS OPIE, ECONOMIC CONSULTANT, MEXICO CITY, MEXICO

Mr. OPIE. Yes, Mr. Chairman.

It is a pleasure to testify in your hearings today. I appear as an Anglo-American economist now living in Mexico. For more than 10 years, as the part-time economic counsellor of the American Chamber of Commerce of Mexico, I have been objectively studying the problems of both the United States and Mexico.

Today I want to put before the subcommittee some broad concepts and ideas rather than go into specific details of the kind which I covered in my written paper.

In my prepared statement I intended to express an optimistic belief in Mexico's longrun potential for development, development with political and economic stability. Unfortunately, during the last 3 or 4 years economic stability has been lost, as evidenced by the inflation and the subsequent devaluation that was forced upon Mexico. I have tried to show that I believe the Mexican Government has it within its power, with the assistance of the International Monetary Fund, to stop inflation and to reestablish price stability in a relatively short period of, say, 2 to 4 years; but my optimism here depends in part on the right economic doctrine being adopted as the basis of Government policy.

I would interject here, agreeing with what Professor Wilkie said, that the Mexican Government still has it within its power to go to hell in its own way.

Economic logic is the same for all countries, whatever the circumstances with which it is applied. In the United Kingdom, for example, in recent years, a group of economists have been influential with their argument that public investment can grow without limit as long as unemployed human and material resources exist; that the merely financial aspects of spending, such as the increasing money supply and inflation, can be ignored. As a result, the United Kingdom public borrowing requirement has risen to 11 percent of the gross domestic product, and the consequences for economic stability are now obvious.

Now, this is applicable to Mexico, because Mexico in the past has been unaffected by this English doctrine and now President Lopez Portillo is being given advice that reeks of that doctrine. These advisers claim that the Mexican 1977 budget is not inflationary because public expenditures are oriented to "production" and therefore cannot be excessive. This is an obvious non sequitur, an untenable doctrine. The Mexican public-sector gross borrowing requirement at 221 billion pesos is equal to 14.5 percent of the probable GDP in 1977, much more than the 11 percent of the GDP in the United Kingdom. False economic logic in Mexico is bound to have consequences similar to those in the United Kingdom. My tersely stated optimism regarding the outcome of the battle against inflation in Mexico is predicated on the English doctrine being rejected.

I also tried to show in my prepared statement that the loss of financial stability was an unnecessary tragedy for Mexico. In trying, in the cause of social justice, to do more than its physical resources would permit, the Government inflicted new injustice and suffering and not the least on the very people it was endeavoring to help. The time frame in which the objectives of social and economic progress are attainable cannot be ignored. This should be the lesson learned from the past if the Mexican Government today is to approach its formidable problems of reform with greater prospects of success in the future than in the past.

Nearly 30 years ago when I first began working systematically on U.S. foreign policy, the Congress was studying the appropriate organization for the Marshall plan and it established the ECA, the Economic Cooperation Administration. At that time, economic "integration" or "unification"—I use the two terms of the Congress of that day—was being urged on Europe by Members of the Congress as the most rational solution of Europe's problems. If contiguous areas exist in which the economic characteristics of the constituent countries make them fit subjects for economic integration, the North American Continent is surely one such area.

Canada, the United States and Mexico are in many respects complementary rather than competing economies; and perhaps especially Mexico and the United States are complementary. These two countries have a mutuality of interest in pursuing harmonious development together.

Now, of course, mere propinquity with the world's biggest market would alone have insured that the bulk of Mexican trade is with the United States: The complementarity of the two economies intensifies the degree of integration of which they are susceptible. The actual resulting degree of concentration of trade is far greater in Mexico, the smaller economy, and about 60 percent of its total trade is with the United States. This is a fact of life.

In 1973, the latest figures available to me, the World Bank ranked Mexico with a per capita income of 890 current U.S. dollars, 43rd from the top in the list of 125 countries with a population of 1 million people or more. The same figure, per capita income, for the United States was $6,200, seven times as great. The population of Mexico was and is less than one-third that of the United States. So, measured by total national income, the economic weight of the United States is perhaps 20 times that of Mexico.

One consequence of this great economic weight is that the United States is the world's greatest source of international capital, of both loan—or if you like, portfolio, or indirect—capital and direct investment—or equity—capital. Direct investment capital is supplied mainly from the United States and other countries by the multinational or transnational corporations. Associated with it is technological and managerial know-how. As a part of the natural area for economic integration, Mexico with its great developmental potential offers ample opportunity for profitable U.S. direct investment. Yet, since 1971, the total of foreign direct investment in Mexico has grown from $196 million to $362 million in each of the years 1974 and 1975. That figure for the first 9 months of 1976 is only $297 million. In constant dollars of 1970, adjusted that is for increases in Mexican prices, these increases mean a fall in real terms to $191 million in 1975 and $131 million for the 9 months of 1976.

I have indicated in my paper that Mexico may need much more foreign direct investment for the rest of this century, and may have to revise its policy regarding the attraction of such capital. This may imply taking a different view of the significance of transnational corporations.

I would like to suggest to the subcommittee that the historical meaning of the increase in the operations of the transnationals is that we are witnessesing the fuller internationalization of the world productive processes, just as before World War II we witnessed a very great extension of the international trading processes. I won't go so far as to say that it was a full internationalization of the trading processes, but it certainly was a fuller internationalization that occurred. Competitive forces are affecting the world distribution of the investment necessary to production. Mexico cannot afford to be noncompetitive. This is why it may have to take another look at its foreign investment and other laws affecting foreign enterprise in Mexico. The blanket restriction to 49 percent foreign ownership and control has been justified on the ground that Mexicans "want to be partners and not servants" in their association with foreign enterprise. The implication is that a minority stockholder, with minority control of the management, is in an inferior position. In this case I ask: Can foreign enterprise be expected to enter Mexico under conditions of inferiority?

The powerful U.S. economy has provided in the past 70 to 80 percent of the total foreign direct investment flowing to Mexico. It has also acted as a magnet to Mexican labor and a large migration has taken place over the years. Unfortunately, some workers have moved and continue to move illegally into the United States. The underlying reason for the illegal migration is, of course, economic. The problem it creates is political and the solution is beyond my professional competence. Observing events from Mexico, however, it seems to me that the U.S. authorities have treated the problem with sympathy and compassion, without in any way condoning the illegality. I expect and hope that such will continue to be the policy.

The problems of migration, legal and illegal, will be with us for at least another generation. Any liberalization of the U.S. immigration law that might prove to be possible in favor of Mexico would be an immense contribution to the social and economic welfare of that country. It would bring more direct and immediate benefits than a system of generalized trade preferences which, for very good reasons, embraces all developing countries. Mexico could be given special immigration treatment on the ground that contiguity invites greater economic integration, and that the productive forces of capital and labor should be allowed to move more freely within an area in which the movement of goods and services has reached such large proportions.

I am not unduly visionary about rapidly further liberalizing the international economic system. But, I believe that the United States and the world in general have benefited enormously from the strong leadership that this country gave over 30 years ago in the establishment of a liberal financial and commercial world system. It is my conviction that the economic logic supplied by Adam Smith 200 years ago in support of a "geographical division of labor" remains valid. That was the foundation of American poliry and leadership from the 1940's onward. I pray that the executive branch and the Congress will see that it remains the foundation of American world economic leadership from which U.S.-Mexican relations will prosper.

Thank you.

Representative LONG. Thank you, Mr. Opie. Yours is a most enlightening statement. I think it is a very good addition to your prepared statement that I had a chance to review this morning, and which will be printed in the hearing record.

[The prepared statement of Mr. Opie follows:]

PREPARED STATEMENT OF REDVERS OPIE

The Mexican Economic System

Mexico is a large country with possibilities for economic development at present rivaled only by Brazil. These two countries are the main borrowers of long-term capital from the international lending institutions, which is a reflection of their great developmental potential.

Judged by size of population, Mexico in mid-1973 with 56 million ranked twelfth among the 125 countries listed in the World Bank Atlas with a million or more inhabitants. It was out-ranked in Latin America only by Brazil and in Western Europe only by the Federal Republic of Germany. But since Mexico is growing by 3.2 percent to 3.5 percent a year, faster than any other country of its size, and Germany by only 0.6 percent, it will in 1977 pass the 64-million mark and replace Germany in the eleventh place. By the year 2000 its poulation will be between 115 and 130 million.

The age distribution resulting from such a high rate of increase makes the Mexicans a relatively young people. About 46% of the total are under 15 years of age. While there are about 32 million people aged 15–16 years (the working age), those economically active — the work force — probably number around 17 million, an unusually small proportion of the working-age group.

The annual entrants to the working-age group are numerous and increasing. For many years the creation of new jobs has not kept pace with new entrants, hence the growing backlog of unemployed, underemployed and non-employed (those who have never had a job). This is Mexico's worst socio-economic problem. It has not been perceptibly relieved by the heavy migration from the countryside to the cities, which has added the open sore of squatter communities to the conditions of urban distress. Industrialization and the drift to the cities have together reduced the rural population from about 65 percent of the total in 1940 to posibly 38 percent today.

The land area of Mexico is over 760,000 square miles, about one quarter the size of the United States and eight times West Germany or Great Britain. It is the third largest in Latin America, coming after Brazil and Argentina. Its land frontier is nearly 2,000 miles with the United States and about 700 miles with Guatemala and Belize. It has a coastline of 6.000 miles, bordering on the Gulf of Mexico, the Caribbean Sea and the Pacific Ocean, which gives it a great potential for fishing. Much of the area is mountainous or arid, and only about

15% or 30 million hectares of the total area is arable. Mexico is therefore land-poor, but more unfortunately also water-poor, which involves costly irrigation projects to achieve maximum land utilization. On the other hand, forests containing vast resources of both coniferous and tropical woods cover 34 percent of the total area. As Mexico lies between latitudes 32 and 14 degrees north, with altitudes varying from 8,000 feet or more in the high central plateau to sea level in the coastal plains, its climate varies from temperate to tropical, and is suitable for growing a wide range of agricultural products.

Finally, Mexico is rich in mineral resources, including hydrocarbons. The resources have not been fully explored, but they are extensive, as was revealed by the unexpected discovery of large new oil and gas fields in the States of Tabasco and Chiapas. Exploration is continuing in the hope that rich fields exist in other parts of the country. The diversity and the volume of Mexican mineral production is demonstrated by the fact that in 1971 it was included among the six highest world producers of twelve items: fluorite, celestite, sulphur, graphite, silver, antimony, arsenic, barite, bismuth, mercury, lead and zinc. It also has a small, but potentially much larger, output of coal, iron, manganese and copper.

POLITICAL AND LEGAL SYSTEM

Among the developing nations Mexico has acquired an enviable reputation for political and economic stability. Political ideals in Mexico, as in the rest of the western hemisphere, were influenced by 18th century philosophical liberalism, and it was inevitable that constitution-making in Mexico from 1824 onwards was modelled on the constitution of the United States of America. The form of government of the United Mexican States, as establish in 1917 by the last of the three written constitutions, is a highly centralized federation of 31 states, with a strong presidency. It is based on the separation of powers, with a bicameral legislature, a judiciary and an executive. The Constitution of 1917 contains a bill of rights guaranteeing individual libery. This established the power of "*ampar*", under which naural and legal persons can seek relief by injunction in the federal courts when they consider that their rights have been abrogated.

The political system comprises four national parties, but the overwhelmingly predominant party is the PRI, the Institutional Revolutionary Party (Partido Revolucionario Institucional), which has evolved since 1930 into the "official" party. A system of proportional representation provides the other three parties with some seats in the legislature, but not enough to form a serious opposition.

The organization of the PRI is complex and its political processes are not fully understood. It consists of three sectors, the workers, the farmers, and the "popular" organizations, the latter comprising professional people and other non-worker, non-agricultural groups. The PRI plays an important part in selecting candidates for the Congress and the presidency. A Mexican political analyst has described the PRI and the presidency as the two "central pieces" in the political system, but the President is without doubt pre-eminent. The principle of no re-election, which applies to the President and to members of the Congress, in no way detracts from this pre-eminence. His influence over the composition of the legislature, the judiciary, and the governors of the states is undeniably very great.

Many existing statutes are founded on the socio-economic articles of the Constitution, which were the most "revolutionary" in character and far ahead of their time. Some of these articles remained a dead-letter for over a half century, until they were made the basis of a large number of new laws or decrees, enacted during the administration of President Echeverria. They include the agricultural reform law of 1971 (the first enactment in 30 years); revised laws on profit-sharing, mining, and labor (to provide houses for workers); two laws on foreign technology and foreign investment; laws on patents, trade marks, consumer protection, and consumer credit to workers; a law on human settlements, enacted after a constitutional amendment, to increase the powers of the government over the disposition of private property in the interest of town and country planning; and a "solidarity" law to provide new legal forms for collectivist types of organization.

Many of these laws obviously affect the conduct of business by foreign companies in Mexico, of which the labor law is probably of greatest importance. As amended in 1970 at the end of the administration of President Diaz Ordaz, the labor law, like its predecessor in 1931, covers every aspect of employment—wages, fringe benefits, job promotion, dismissal, and labor-management relations in general. Within the provisions of the law, collective bargaining between individual firms and labor unions remains the fundamental mechanism for the negotiation annually of work contracts—for raising wages and improving working conditions above the minimum prescribed by law. It must be said, however, that the detailed legal restraints on contractual relations contained in the nearly 900 articles of the law, especially those relating to promotions and dismissals, undoubtedly diminsh labor mobility, with adverse effects on industry efficiency.

The Mexican government lays great stress on the fact that Mexico has a "mixed economy", comprising a public sector and a private sector, a characteristic that is neither new nor unique to Mexico. The significance of this feature depends of course on the nature of the mixture. During the last 30 years Mexico has been extending the scope of its public sector, with a noticeable acceleration during the last administration.

ECONOMIC INSTITUTIONS

Within its legal frame-work Mexico has built up a sophisticated complex of economic institutions, both public and private. In the public sector, it has a strong central bank, the Banco de Mexico, founded in 1925, which together with the National Banking and Insurance Commission and the Ministry of Finance and Public Credit, controls the operations of private financial institutions. The next most important government financial institution is Nacional Financiera, S.A., founded in 1934, a development or investment bank, active in lending to, and otherwise promoting, public and private industry. Other national financial institutions are active in agriculture and rural development, in construction, in foreign trade and in such specialized activities as sugar refining, the cinema industry, small business operations, and even a pawn shop.

The public sector also embraces a wide range of industrial and commercial activities, carried out by two types of government entity—decentralized organizations, and state enterprises. These state entities grew in number (not so much in volume of business) from 87 to 740 in the last administration and they may account for 10 to 15 per cent of gross domestic product. They range from the government petroleum and petrochemical complex, Petroleos Mexicanos (PEMEX), through steel, fertilizers and automobiles and tractors, electric power, railroads and airlines, to an unusual organization CONASUPO (Cia, Nacional de Subsistencias Populares), which administers support prices for farm products, buys and distributes food and clothing, and now produces consumer products. Only 26 of the hundreds of government entities are included in the federal budget, but their expenditure (including two social security agencies) probably represents 90 percent of the total.

Mexican private financial institutions are also highly developed. Total credits granted by the banking system as a whole are about equally divided between the public and the private institutions. Branch banking is permitted, and well over a hundred commercial (or deposit) banks have approaching 2,000 branches and agencies. An even greater number of savings banks also have branches. The *financieras* (investment banks) number about 100, and, as is to be expected, they have fewer branches. The numerous fiduciary (or trust) institutions are mostly departments of the commercial banks. The more highly specialized mortgage and capitalization banks are much fewer in number. Private banks are free to form groups comprising the different types of institution and activity, which is conducive to efficiency in providing a wide variety of services. In fact, multiple banking is now provided for and encouraged by statute.

The private banks are subject to supervision by the monetary authorities to ensure financial integrity and sound banking practices. In addition they are subject to regulation by the Bank of Mexico in its management of the monetary system. For this purpose the Bank uses a variety of measures, including the regulation of interest rates, the discounting of short-term private paper, the purchases of government and private bond issues, and most important of all, compulsory reserve requirements (*the encaje*). The latter is such a powerful instrument that the Bank of Mexico was able in 1975 to divert to itself over

50 percent of the total resources acruing to the private banking system for lending to the government.

In contrast to this tight banking control, the govenment leaves foreign exchange transactions free. Both current income and capital funds move in and out of the country without any restriction whatsoever. Private imports of goods into the country, however, are subject to control by a system of import licensing, which in August 1975 was increased from 80 percent to 100 percent coverage.

The government also exercises some control over prices in the private sector. These tend to introduce rigidities into the price-cost structure, and combined with import controls they have the effect of insulating Mexico to some extent from the international price structure. The protection of industry has diminished efficiency at home and competitiveness abroad. Import controls have been used more than tariffs to protect local industry. For 30 years protection was designed to encourage the production of consumption goods in substitution for imports. It is now being realized that the relatively free entry of capital goods for use in these consumption-goods industries impeded the founding of capital-goods industries. Official policy is therefore being directed to the problem of achieving more balanced industrial development, with a view to gearing the Mexican system more into the world economy. The solution includes reducing the permissible excess of the prices of locally produced goods over foreign prices, and encouraging the production in Mexico (with foreign participation) of capital goods.

NATIONAL OUTPUT

In the course of industrializing and modernizing the economy during the last 30 years, Mexico has attained a high rate of growth in gross domestic product (GDP). Until the inflation that caused the 1976 devaluation, this was achieved with price stability, which contributed to the steadiness of growth over a long period of years. Mexico acquired, in contrast with most other developing nations, an enviable reputation for financial stability. Added to its political stability, this made Mexico an attractive country in which to produce and invest.

During the 18 years after the last devaluation in 1954, Mexico was averaging a real growth rate in gross domestic product of between 6 percent and 7 percent while maintaining price stability. Prices showed a tendency to rise excessively in 1969 and 1970 but remedial action re-established stability after the recession of 1971. At the end of 1972, however, and uninterruptedly thereafter, inflation continued. The annual variations in nominal and real output and the rise in the price level since 1960, the base year for measuring real GDP, are shown in Table I.

TABLE I.—GROSS DOMESTIC PRODUCT, 1960-76

[In billions of pesos]

Year	Current prices	Percentage increase	Constant prices (1960)	Percentage increase	Implicit price deflator
1960	150.5		150.5		
1961	163.3	8.5	157.9	4.9	3.43
1962	176.0	7.8	165.3	4.7	2.96
1963	196.0	11.3	178.5	8.0	3.06
1964	231.4	18.0	199.4	11.7	5.64
1965	252.0	8.9	212.3	6.5	2.25
1966	280.1	11.2	227.0	6.9	4.82
1967	306.3	9.3	241.3	6.3	2.82
1968	339.1	10.7	260.9	8.1	2.41
1969	374.9	10.6	277.4	6.3	4.05
1970	418.7	11.7	296.6	6.9	4.52
1971	452.4	8.0	306.8	3.4	4.46
1972	512.3	13.2	329.1	7.3	5.56
1973	619.6	20.9	354.0	7.6	12.40
1974	813.7	31.3	375.0	5.9	24.00
1975 [1]	987.7	21.4	390.9	4.2	16.45
1976 [2]	1,225.0	24.0	402.6	3.0	20.00

[1] Preliminary.

[2] Estimated by the author on the basis of 10-month results for 1976 in industrial—production.

Source: Banco de México, Informe Anual 1975, table 1.

In the five years to 1970, the annual increase in real GDP averaged 6.9 percent, but the price level was rising at a rate considered high for the Mexico of those days. The cut-back in 1971 (the year of recession—*atonia*) was more severe than intended, and growth was restored in 1972 but with a considerable rise in prices. Instead of being brought under control then, the rate of increase in prices more than doubled in 1973; it nearly doubled again in 1974, and real GDP began its decline. The real growth in GDP has averaged 4.4 percent in the last three years.

Large differences exist in the annual rates of growth of the different economic sectors and in their contributions to the overall growth in national output. The most striking contrast is between agriculture and mining on the one hand, and industrial output on the other. In the 1940s, Mexico achieved self-sufficiency in the production of food. In the early 1950s, the emphasis on industrialization was accompanied by a decline in investment in agriculture, and by the mid-1960s the effects were visible in the need to import foodstuffs. They increased in volume in the 1970s, partly as the result of bad harvests. They have diminished again and self-sufficiency is claimed to have been restored, except in corn, a staple in the diet of most Mexicans. The neglect was acknowledged in 1973, when it became government policy to increase public investment in agriculture and to encourage the channeling of private investment to that sector. The record of changes in agricultural and other branches of production for the years 1969 to 1975 is shown in Table II.

The table speaks for itself. In the last seven years, agricultural production has declined three times, partly the result of bad harvests, but mainly of stagnant or declining agricultural productivity. Since there is no more land to be brought into cultivation (self-sufficiency in food was achieved by doubling the area cultivated), productivity is the only means of increasing output. It requires not merely vast capital investment, but an improvement in agricultural education, technology and farm organization. In the nature of things, it is a time-consuming process.

TABLE II.—GROWTH OF REAL GROSS DOMESTIC PRODUCT, BY SECTORS, 1969–75

	1969	1970	1971	1972	1973	1974	1975[1]
Gross domestic product, total	6.3	6.9	3.4	7.3	7.6	5.9	4.2
Agriculture	−1.7	5.5	1.8	−2.6	2.1	3.2	.2
Livestock	5.9	5.7	3.9	5.1	1.9	1.7	3.5
Forestry	9.1	2.9	−5.6	8.1	6.7	6.4	.0
Fishing	−5.4	12.4	2.1	3.5	3.8	1.1	3.4
Mining	4.8	1.5	1.0	−0.2	10.5	14.5	−6.3
Petroleum and derivatives	5.7	9.9	1.4	7.9	1.4	14.2	11.0
Petrochemicals	26.3	7.6	9.4	17.0	11.9	18.4	11.9
Manufacturing	8.1	9.2	4.1	8.3	8.9	5.7	3.9
Construction	9.4	4.6	−2.9	18.2	15.4	5.9	5.7
Electric power	13.8	11.0	8.0	8.9	11.0	9.4	5.7
Transportation and communications	7.4	7.9	7.0	9.9	11.6	11.9	8.6
Commerce	7.0	8.5	2.6	6.9	7.6	5.2	3.2
Government	3.3	9.7	7.2	13.4	11.2	8.2	10.9
Other services	6.3	6.6	4.8	5.6	5.0	3.4	2.7

[1] Preliminary.

Source: Constructed from Banco de México, Informes Anuales—for 1972, tables 3 and 5, for 1973 (October), p. 32 (table), for 1974 (September), p. 22 (table), and for 1975 (February), p. 22 (table).

At some point in the process of industrialing the country, the contribution of Mexican agriculture to GDP could be expected to decline. But total agricultural production would seem to have declined too early and too rapidly: in 1950 it contributed 20.2 percent, in 1960 15.9 percent, and in 1970 11.4 percent to GDP. It fell to below 9.8 percent in 1972. In the two years 1950 and 1972 (the last year for which data are available), the contribution to GDP from crops was 13.8 percent and 5.9 percent, from livestock 5.1 percent and 3.3 percent, from forestry 1.0 percent and 0.4 percent, and from fishing 0.3 percent and 0.2 percent.

All of these figures are disappointing, but with its great natural resources, the most disappointing of all is forestry. The area of forests, after rising from 36.8 million hectares in 1940 to 43.7 million in 1960, fell to 18.5 million in 1970.

In recent years the government has been trying to prevent the destruction of forests and encourage reforestation; but to bring into being a modern integrated forestry industry requires immense capital resources and skilled organization in both the domestic and the international market.

Furthermore, although agricultural exports have made a very important contribution to foreign exchange earnings, even in foreign trade they have not been a dynamic element. Exports of all types of agricultural products (including fish) were around $625 million in the period of price stability 1965 to 1971; they were still less than $730 million in 1974, when prices had risen considerably. The fish catch is too small compared with the vast maritime resources of Mexico, and all the more so in view of the deficiency of protein in the national diet; but the industry has contributed to exports, especially of shrimp.

Although Mexico has long been famous as a mining country, it has not been living up to its potential since the mining law of 1961, which required in each company a majority of Mexican capital. Nevertheless, the diversity and the volume of Mexican mineral production is so great that in 1971, as was noted above, it was included among the six highest world producers of 12 minerals. Since then it has regained first place in world silver production. Partly because of the unavailability of Mexican private capital in the magnitude needed for extensive development, especially in copper and iron, the government has been drawn heavily into investment in mining. It now has a participation of about 37 percent in the mining industry as compared with 15 percent in 1970. The growth and the decline in the last three years, as shown in Table II, are partly associated with increased output resulting from new investment and partly with the large fluctuations in world prices. Large increases in the output of copper and iron are in prospect by the end of this decade.

The growth in transportation and communications that began in 1972 reflects the long-overdue program of modernizing the railroads, an increase in road building (especially of feeder roads to give isolated agricultural communities easier access to markets), an increase in the merchant fleet and port facilities, and the building of new internal airports. Expansion also took place in the communications industry, which is a public utility in Mexico. The telephone service has been automated and expanded, and the main producer of telephone equipment was Mexicanized in 1974. Through a joint venture with TELEVISA, the principal privately-owned television company, the Mexican government has taken the lead in establishing Satelite Latino Americano, S.A. (SATELAT) to improve telecommunications with other Latin American countries.

The consequences of an active government and of the extension of public sector activities are evident in the rate of growth of the contribution of government to GDP. On the average in the last six years the rate of growth is three times that recorded in 1969.

It can also be seen from Table II that the industrial sector has been contributing most to national growth, with petrochemicals, manufacturing industries and electric power the leaders. The contribution of petroleum and derivatives was smaller and more erratic until 1974, when the new discoveries and the high world prices had a striking effect in increasing output, which continued into 1975. World recession in 1974–1975, and domestic credit restrictions in the private sector to combat inflation, affected manufacturing output and to a lesser extent petrochemicals, but as is usual the construction industry was the most volatile because it suffers most from declines in public and private sector activity.

The growth of industrial production, and of the manufacturing part of it, is displayed in greater detail in Table III for the years 1970 up to September 1976.

The general index of the volume of industrial production has grown by 39 percent in the five years since 1970, while the increase in real GDP was only 31.8 percent, thus reflecting the proportionately large contribution of industrial output to growth. This general index comprises 5 sub-indexes, the details of which indicate that petrochemicals were by far the most dynamic source of growth, double that of the general index. The next most important contributions, as show in the sub-indexes, were in electric power and construction (the latter related to government investment), after which came manufacturing with a rate of growth rather below that of the general index.

Still greater detail is shown in the lower half of Table II, which contains 16 separate indexes of manufacturing production, covering nearly 25 percent of the value in 1970 of total manufacturing production. Consumer good industries showed the lowest rate of growth, including sugar, which is an important export item. The most dynamic were the artificial textiles and trucks. There have been capacity problems in iron and steel, and to some extent in basic chemical products, which are being remedied. Copper refining has been affected by world market conditions, and probably by the overvalued currency.

TABLE III.—INDEX OF THE VOLUME OF INDUSTRIAL PRODUCTION, 1970–76

	1970=100					
	1971	1972	1973	1974	1975	1976 [1]
General index: [2]	102.1	112.4	123.8	132.8	139.0	138.9
Petroleum and products	102.4	108.6	110.1	126.1	140.5	155.8
Petrochemicals	109.4	128.1	143.8	169.6	188.7	185.4
Mining and minerals	96.7	101.2	107.7	119.2	112.1	110.7
Electric power	109.8	121.4	131.7	145.6	156.7	170.7
Construction	97.4	113.9	133.9	142.0	150.4	151.9
Manufacturing	102.9	112.5	123.2	131.4	136.7	134.5
Separate indexes of manufactures: [3]						
Sugar milling and refining	102.8	108.0	115.4	119.3	109.8	
Beer	87.2	102.4	119.9	135.4	136.0	144.0
Soft drinks	86.2	94.8	104.9	102.0	122.6	105.6
Cigarettes and cigars	99.4	104.8	94.9	105.2	108.4	101.6
Artificial fibers	125.5	153.0	184.3	194.7	229.0	228.4
Artificial fiber thread and cloth	127.8	159.9	205.2	215.7	240.5	272.9
Printing and related activities	103.7	113.9	104.0	92.4	111.5	137.7
Tires and tubes	110.5	124.1	130.8	136.5	148.5	163.4
Manures and fertilizers	113.6	135.8	147.8	151.5	156.0	160.0
Basic chemical products	108.4	114.1	127.8	142.4	134.7	141.3
Cement	102.6	119.8	136.3	147.5	161.7	182.9
Iron milling	104.5	118.8	123.0	142.6	131.3	139.2
Steel milling	99.4	115.2	122.6	133.6	136.8	130.1
Copper refining and milling	109.7	111.1	108.6	140.8	129.5	158.6
Automobiles	112.0	115.1	140.3	172.0	166.1	94.3
Trucks	102.3	120.3	151.0	187.2	229.0	135.6

[1] For the month of September.
[2] The general index of industrial production covered 60 percent of total industrial production in 1970.
[3] These 16 separate indexes (not subindexes of manufacturing in the general index) covered 23.5 percent of the value of total manufacturing production in 1970.

Source: Banco de México, Indicadores Económicos, vol. IV, No. 8, tables 11–1 and 2.

PRICES, MONEY SUPPLY AND WAGES

The loss of price stability in 1973 is clear from the wholesale and consumer price indexes, following the increase in the money supply in 1972. These changes are shown in Table IV.

TABLE IV.—WHOLESALE AND CONSUMER PRICES, MONEY SUPPLY AND GDP, 1969–76

Year	Price indexes [1]			Percent increase from previous year [2]			
	Wholesale 1954=100	Consumer 1968=100	Money supply [3]	Wholesale prices	Consumer prices	Money supply	Current GDP
1969	164.3	103.5	40.7	2.6	3.5	10.9	10.6
1970	174.1	108.7	45.0	6.0	5.0	10.6	11.7
1971	180.6	114.6	48.8	3.7	5.4	8.4	8.0
1972	185.7	120.3	59.1	2.8	5.0	21.1	13.2
1973	214.9	134.8	73.3	15.7	12.1	24.0	20.9
1974	263.2	166.8	89.5	22.5	23.7	22.1	31.2
1975	290.9	191.8	108.5	10.5	15.0	21.2	21.4
1976 (November)	425.6	249.1	128.2	40.1	25.1	26.9	[4] 24.0

[1] Wholesale prices, 210 articles in Mexico City; consumer prices, national, covering 7 cities, including Mexico City.
[2] November to November for prices and October to October for the money supply in 1976.
[3] In billion pesos (seasonally adjusted).
[4] Estimated by the author.

Source: Banco de México, Indicadores Económicos, vol. IV. No. 8, tables 111–3 and 4.

In the five years 1970–75, wholesale prices increased by 67 percent and consumer prices by 76 percent (comparable to the 78 percent increase in the implicit price deflator). During this period, the urban minimum wage rose by 96 percent on the average of all districts. On January 1, 1976 the minimum wage was increased by about 22 percent over that established fourteen months earlier in October 1974. The Mexico City consumer price index during the 14 months ending December 31, 1975 rose by 17.7 percent, while the minimum wage increase for the Federal District was 24 percent. Over the country as a while, the increases in minimum wages averaged 22 percent, which was 6 percent to 7 percent higher than the price increase. A wage-cost push was thus given to inflation.

Since January 1, 1976 two minimum wage increases have been granted; 23 percent on October 1, 1976 and about 10 percent (ignoring the few zones with only a 9 percent increase) on January 1, 1977, which amount to a cumulative increase of 35.3 percent since the January 1976 award. From December 1975 to November 1976 the national consumer price index rose by 24.1 percent and that for Mexico City by 21.3 percent. The average of the rist in these two indexes in each of the months of October and November was 5 percent, very large increases under the impact of devaluation. It is estimated that consumer prices increased in December by about 2.5 percent, which will make the 12-month increases to December 1976 no more than 27.2 percent in the national consumer index, and 24.3 percent in the Mexico City index. The cumulative increase in wages of 35.3 percent exceeds the price increase by 8 to 11 percentage points.

It should not be forgotten, however, that this is an addition to the inflationary push that was being given after January 1976. Three minimum wage increases have been awarded in the last 12 months; 22 percent on January 1, 1976, 23 percent on October 1, 1976 and 10 percent on January 1, 1977, which add up to a cumulative increase of 65.1 percent in a period when consumer prices have risen by much less than half that percentage amount. Since negotiated wage contracts are linked to the minimum wage increases, the total increase in money and real wage cost must have been very large, creating for business firms (private and public) serious problems of adjustment.

Looking at the wage increases from another angle, the minimum in the Federal District was 63.40 pesos a day in December 1975, the equivalent of US $5.07 at the 12.50 rate of exchange. It was raised in three moves to 106.40 pesos a day on January 1, 1977, an increase of 67.8 percent, and the equivalent of US $5.32 at the 20.00 rate of exchange. The cost of the dollar has risen by 60 percent, much more than the rise in the price level, and the minimum wage has risen more than the peso cost of the dollar.

Such large wage increase are surely completely divorced from any *conceivable* rises in labor productivity, and therefore also divorced from reality. Their inflationary effects, by increasing public expenditure, and through increases in costs putting pressures on prices, can hardly be in doubt. It is difficult to believe that government policy could ignore the unescapable inflationary consequences of such wage increases.

Some increase in wage demands was the inevitable consequence of the price rise. Increases in the money supply (MI) and in GDP in current prices began in 1972. In that year the money supply leaped ahead, and with a lag GDP in current prices caught up and then in 1974 went ahead of the rate of increase in money. An effort was made in 1975 to diminish the rate of inflation, but with only partial success, for the implicit price deflator was 16.45 percent, while consumer prices rose by 15.0 percent, representing a reduction of about one third from the preceding year. The first half of 1976 showed a moderating rate of increase (an annual rate of 12.4 percent), but then came the devaluation, accelerating price increases. The underlying cause of the failure to control prices was undoubtedly the increase in government expenditure.

BANKING OPERATIONS AND CREDIT POLICY

The total resources of the banking system increased by 26.6 percent in 1975, considerably higher than the 20.9 percent increase in 1974 and higher still than the16 percent increase on the average of the preceding six years. The increase in 1976 to the end of July was 9.7 percent over the end of 1975, or at an annual rate of 16.6 percent. As shown in Table V, from 1970 to 1975 total financial resources increased by about 139 percent. To mid-1976 the total increase is about 160 percent. After a slow-down in their rate of growth during 1971–74, the financieras (the private investment banks) in 1975 again drew ahead of the commercial banks with a growth rate of 29.8 percent in their resources. Despite this change, the Bank of Mexico reported that late in 1975 a shift occurred in the non-monetary forms in which resources were held towards the liquid instruments (mainly financial bonds, ordinary mortgage bonds, Nacional Financiera notes, and savings deposits) that can be readily converted into cash.

The total of loans provided by the banking system (public and private) increased during 1970–75 by 124 percent to 290.8 billion pesos. As can be seen from Table VI, changes occurred in the distribution of loans, as among economic sectors and as between the private and public sectors. Loans to agriculture increased by 164 percent to 46.8 billion pesos. Loans to forestry and fishing grew much more (by 533 percent) but from a very low base, and they are still undeveloped industries. Those to transport increased by 189 percent, showing that it was given priority, and construction (+138 percent) reflected public sector investment. Manufacturing industry loans increased by 114 percent only, although the government policy was not to neglect it.

TABLE V.—RESOURCES OF PRIVATE AND PUBLIC FINANCIAL INSTITUTIONS, 1970–75

	Billion pesos, end of year						Percent increase in year					
	1970	1971	1972	1973	1974	1975	1970	1971	1972	1973	1974	1975
Total private institutions	128.4	147.0	171.8	194.7	225.7	282.0	18.2	14.5	16.9	13.3	15.9	24.9
Deposit banks and savings banks	41.0	44.6	53.4	64.5	77.2	91.4	10.8	8.8	19.7	20.8	19.7	18.4
Financieras	60.5	71.4	83.0	87.6	102.2	132.7	28.7	18.0	16.2	5.5	16.7	29.8
Mortgage institutions	15.8	18.9	22.3	24.5	28.6	35.8	14.5	19.6	18.0	9.9	16.7	25.2
Others	1.1	1.1	1.1	1.3	1.4	1.6	1.1	0	0	18.2	7.7	14.3
Capital	3.5	4.0	4.7	5.1	5.1	5.7	6.1	14.3	17.5	8.5	0	11.8
In foreign currency	6.6	7.1	7.3	11.8	11.4	14.8	3.1	7.6	2.8	61.6	−3.4	29.8
Total public institutions	76.0	89.1	101.1	127.9	163.4	205.7	9.7	17.2	13.5	26.5	27.8	25.9
Banco de México	22.6	24.6	30.2	39.0	50.2	59.4	9.7	8.8	22.8	29.1	28.7	18.3
Others	53.4	64.5	70.9	88.9	113.2	146.3	9.7	20.8	9.9	25.4	13.0	36.2
Total private and public institutions	204.4	236.1	272.9	322.6	389.1	487.7	13.8	15.5	15.6	18.2	20.6	25.3

Source: Banco de México, Indicadores Económicos, vol. IV, No. 8; adapted from table 1–3.

TABLE VI.—BANK LOANS[1] BY TYPE OF BORROWER

[In billions of pesos]

	1970	1971	1972	1973	1974	1975
Total loans[2]	130.1	154.0	173.5	192.5	232.2	290.8
I. Private and State companies	117.0	139.2	154.0	166.7	202.7	255.1
Agriculture	17.7	21.3	23.5	26.2	33.9	46.8
Forestry and Fishing	.3	.4	.5	.8	1.5	1.9
Mining	.8	1.0	.9	1.2	1.3	1.9
Petroleum	2.2	4.2	6.1	5.4	4.5	3.0
Electric power	7.8	9.6	11.8	12.4	11.9	13.0
Manufacturing industry	33.3	38.5	40.0	42.6	55.5	71.1
Construction	11.7	13.3	16.9	18.3	21.2	27.8
Commerce	20.3	25.3	27.4	27.9	35.8	42.2
Services and others[3]	23.0	25.6	26.9	32.0	37.2	47.4
Transport	5.4	6.3	6.7	7.7	9.6	15.6
Housing	3.7	4.4	4.8	5.8	6.3	7.5
II. Government	13.1	14.8	19.5	25.8	29.5	35.8
Federal	10.4	11.3	14.4	20.5	23.1	31.3
State and Municipal	2.7	3.5	5.1	5.3	6.3	4.5
Total Bank of Mexico financing[4]	49.3	55.1	67.9	88.5	123.6	164.7

[1] Excluding purchases of stocks and bonds.
[2] Excluding Bank of Mexico which is not considered as directly granting loans.
[3] Includes also communications, cinematograph, and other amusements.
[4] Virtually all credits by the Bank of Mexico are to the Federal Government. The end-June 1976 amount was 181,100,000,000.

Source: Indicadores Economicos, vol. IV, No. 8, July 1976, table 1-9 (and for the Bank of Mexico financing table 1-4).

The shift to the public sector is difficult to quantify accurately. Loans to all companies increase by 118 percent but no breakdown exists between private and public recipients. The loans to government increased by much more, 173 percent; but this excludes Bank of Mexico loans, which are virtually all to the Federal Givernment. They increased by 234 percent to 164.7 billion pesos, which is 4.6 times the amount of other national and private bank loans to the government. This shift depicts the inflationary process.

In its 1975 annual report (September 1976) the Bank of Mexico attributed the increase in banking resources to two "considerable expansionist forces" — a growing public sector deficit and an incraese in cost of production. Its policy was to maintain a high level reserve proportion for the private sector banks in order to accommodate increased government spending, while keeping domestic liquidity "consistent with the real growth of production". The policy was expected to reduce inflation and the balance of payments deficit. The Bank found it inadvisable to raise the compulsory reserve percentages to higher levels in order to "finance the government deficit in greater measure with non-inflationary resources because this would have diminished to an undesirable extent the resources available to the private sector", with adverse effects on output and employment. The Bank's policy therefore included an effort to increase the total flow of resources into the banking system by raising Mexican interest rates still further above the world level, hoping thereby "to increase the volume of financing of the public sector, without affecting the resources necessary for the private sector."

In announcing this policy, the Bank implicitly acknowledged for the first time that the diversion of financial resources from the private banks to the public sector may well have the effect of diminishing investment in the private sector. The magnitude of the total resources diverted from the private banks is very large. In 1975, of the additional 56.4 billion pesos accruing to private banks, 32.9 billion pesos or 58.3 percent, was transferred to the Bank of Mexico under the compulsory reserve requirement and special arrangements, for financing the public sector. The Bank reported that the average compulsory reserve proportion of the financieras (responsible for 51.9 percent of private bank loans and 17.5 percent of the banking system total as of mid-1976) was raised from 39.9 percent to 41.5 percent in 1975 and that they accounted for 64.2 percent of the total funds diverted to the public sector. These are funds on which the private sector relies for its investment programs. It may be that the discouragement of private sector investment is one of the distortions in the Mexican economy caused by excessive government-spending-induced inflation.

PUBLIC FINANCE

A complete description, much less an analytical appraisal, of the Mexican consolidated public-sector budget since 1972 in relation to inflation would be too much to include in this paper. The main features of the budget, and changes in them, can be portrayed, however, as in Table VII for the years 1972–77.

The federal budget is divided into two main parts, that of the Federal Government, with its 22 departments, and that of the Decentralized Organizations and Federal Government Enterpises consisting of 26 of the state entities that were briefly referred to above.

Table VII gives the division between these two participant groups in the budget of expenditure and borrowing, and the extent to which their actual performance exceeded the budgeted. The percentage of expenditure covered by borrowing was persistently smaller by the state entities than by the Federal Government, but after 1972 the actual borrowing by the state entities exceeded the budgeted by a much larger percentage amount than was the case with the Federal Government. Reform of the administrative control of the budget in the present Administration is paying special attention to the state entities. The other notable feature is the growth by 489 percent of the total public sector borrowing requirement as budgeted in 1977 over the actual in 1972, an average cumulative increase of 98 percent in the five years. The actual borrowing requirement as a percentage of current GDP was in five years 1972–76: 7.3 percent, 10.1 percent, 9.4 percent, 13.9 percent and 12.8 percent. On the assumption that GDP in current prices increases again by 24 percent in 1977 (as is assumed for 1976), the 221 billion pesos budgeted for this year represents 14.5 percent of current GDP. This may be compared with the UK borrowing requirement of 11 percent of current GDP, which is a cause and an effect of its monetary instability.

91-139—77——3

TABLE VII.—PUBLIC EXPENDITURE AND BORROWING, 1972–77

[In billions of pesos]

Year	Federal Government			State entities			Total public sector		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Total expenditure	Borrowing	Percent (2) of (1)	Total expenditure	Borrowing	Percent (5) of (4)	Total expenditure (1) +(4)	Borrowing (2) +(5)	Percent (8) of (7)
1972:									
Budget	$54.7	$15.1	27.6	$68.6	$12.5	18.2	$123.3	$27.6	22.4
Actual	$77.2	$22.3	28.9	$70.1	$15.2	21.7	$147.3	$37.5	25.5
Increase actual over budget (percent)	41.1	47.7		2.2	21.6		19.5	35.9	
1973:									
Budget	$89.4	$32.9	36.8	$84.5	$17.2	20.4	$173.9	$50.1	28.8
Actual	$102.2	$33.7	33.0	$101.8	$28.6	28.1	$204.0	$62.3	30.5
Increase actual over budget (percent)	14.3	2.4		20.5	66.3		17.3	24.4	
1974:									
Budget	$114.1	$37.4	32.8	$116.8	$20.0	17.1	$231.0	$57.4	24.8
Actual	$135.9	$47.0	34.6	$140.7	$33.1	23.5	$276.5	$76.5	27.7
Increase actual over budget (percent)	19.1	25.7		20.5	65.5		19.7	33.3	
1975:									
Budget	$186.1	$54.2	29.1	$160.6	$32.3	20.1	$346.7	$86.5	24.9
Actual	$200.5	$70.5	35.2	$200.2	$66.6	33.3	$400.7	$137.1	34.2
Increase actual over budget (percent)	7.7	30.1		24.7	106.2		15.6	58.5	
1976:									
Budget	$238.0	$83.2	35.0	$201.6	$33.8	16.8	$439.6	$117.0	26.6
Actual [1]	$259.2	$91.9	35.5	$271.0	$65.5	24.2	$530.2	$157.4	29.7
Increase actual over budget (percent)	8.9	10.5		34.4	93.8		20.6	34.5	
1977: Budget (percent)	$349.8	$135.4	38.7	$327.6	$85.6	26.1	$677.4	$221.0	32.6

[1] These are the estimated actuals as of Dec. 15, 1976.

Source: Constructed from tables in Anexos Estadisticos of the December budget messages to the Mexican Congress 1973–76.

THE BALANCE OF PAYMENTS

Mexico has had for many years a trade deficit (goods only) and a current account deficit (goods and services) in its balance of payments. These deficits are not in themselves signs of weakness, for they are to some extent planned, the government having decided to draw on foreign capital resources to increase the rate of Mexican socio-economic development beyond what could have been achieved by relying exclusively on national savings. The trade deficit implements the transfer of real resources made available by the financial contracts.

The current deficit is traditionally less than the trade deficit because the surplus in the service items, mainly from tourism and border transactions (purchases by residents on both sides of the northern border), contributes substantially to covering the trade deficit. In recent years an important new service item, the processing (maquila) industries, has added its contribution to covering the trade deficit. The decrease in these service items (invisible exports) in 1975-76 was strong evidence that the peso was overvalued.

Except for an improvement of $220 million in 1971, the current balance has been deteriorating for the last six years. This was accompanied after 1972 by an outflow of short-term capital as measured by the item "errors and omissions". The current deficit and the short-term capital outflow were financed by foreign borowing, with enough to spare to add about $150 million a year on the average to the reserves of the Bank of Mexico.

The growing imbalance is shown by the 4-year changes, 1971–75, in the main items in Table VIII. Merchandise exports increased by 110 percent, but imports by 192 percent. Incoming tourism increased by 74 percent, but outgoing tourism by 131 percent. Long-term capital (net) increased by 482 percent, but the foreign direct investment component increased by only 85 percent. Credits from abroad (net) increased by 555 percent, but the public sector component by 763 percent, while the private sector component increased by 195 percent, and the part attributable to companies with foreign capital increased by only 108 percent. The most striking feature of the deterioration, however, is the disappearance of the surplus in the service items. Having grown from $165 million in 1971 to $649 million in 1974, in that year it declined in every quarter after the first, and in 1975 it became negative. In that year, therefore, the current account deficit actually exceeded the trade deficit by $62 million, if the $140 million of silver exports is included, as it should be, among the commodities.

Mexico's main trading partner in both goods and services is the United States. This is inevitable since its neighbor to the north is the biggest market in which to sell and the most favorable in which to buy for many commodities. The United States is a competitive world supplier of many capital goods, which constitute 80 percent of Mexican imports. On the average, 60 percent or more of Mexican merchandise trade is with the United States, and Mexico on its part ranks high on the list of countries importing from and exporting to the United States.

Just as the greater part of Mexican international transactions are with the United States so its trade and current account deficits are preponderantly with the United States. The situation would be very unlikely to be otherwise in view of the competitiveness of the United States in capital goods and other commodities. But in the large exchange of agricultural products, Mexico has traditionally had a surplus with the United States. In 1975, however, it had a deficit, mainly the result of large purchases of wheat, feed grains, vegetable oils and seeds, and soybeans, which Mexico hopes were emergency transactions, not to be repeated. The annual surplus was between $360 million and over $450 million during the three US fiscal years 1971–73; it fell to $118 million in 1974; it became a deficit of $268 million in 1975; and it returned to a surplus of $229 million in fiscal 1976.

TABLE VIII.—BALANCE OF PAYMENTS OF MEXICO, 1971–76

[In millions of dollars]

	1971	1972	1973	1974[1]	1975[1]	1976,[1] January to September
I. (i) Balance of goods[2]	−891	−1, 053	−1, 742	−3, 207	−3, 576	−2, 152
(ii) Balance of goods and services	−726	−762	−1, 175	−2, 558	−3, 769	−2, 507
A. Exports of goods and services	3, 167	3, 801	4, 828	6, 343	6, 303	5, 112
1. Goods[3]	1, 363	1, 665	2, 071	2, 850	2, 859	2, 332
2. Production of silver	47	51	70	149	146	104
3. Tourism	461	563	724	842	800	623
4. International travel fares	47	60	63	78	89	78
5. Border transactions	967	1, 057	1, 208	1, 373	1, 542	1, 226
6. Processing industries[4]	102	165	278	444	454	423
7. Other	180	240	415	607	414	328
B. Imports of goods and services (−)	3, 894	4, 562	6, 004	8, 901	10, 072	7, 618
1. Goods	2, 254	2, 718	3, 813	6, 057	6, 580	4, 587
2. Tourism	172	220	258	335	399	322
3. International travel fares	54	66	73	97	134	128
4. Border transactions	613	649	695	819	958	764
5. Dividends, interest and other remittances from companies with foreign capital	383	452	528	634	699	609
6. Interest on official debt	237	262	379	589	851	794
7. Other	181	196	258	371	451	414
II. Errors and omissions in current account and in short-term capital (net)	218	234	−387	−136	−406	−1, 304
III. Long-term capital (net)	669	754	1, 676	2, 731	4, 340	3, 089
1. Foreign direct investment	196	190	287	362	362	297
2. Purchase of foreign companies		−10	−22	−2	−26	
3. Security operations	52	6	−10	−60	65	27
4. Credits from abroad (net)	451	546	1, 371	1, 999	3, 478	2, 306
a. Public sector (net)	286	360	1, 047	1, 673	3, 054	2, 296
Gross borrowing	742	864	1, 892	2, 234	3, 859	2, 833
Amortization	−456	−505	−845	−561	−806	−537
b. Private sector (net)	164	186	324	326	424	8
5. Government debt (net)	−29	38	70	471	456	485
6. Credits to other countries	−1	−16	−19	−40	5	−25
IV. Special drawing rights	40	39				
V. Change in Reserves of Bank of Mexico (sum of I, II, III, and IV)	200	265	122	37	165	−723

[1] Preliminary.
[2] Including silver in exports of goods.
[3] Excluding exports of processing (máquiladora) industries.
[4] The assembling and processing (máquiladora) companies.

Source: Indicadores Económicos, October 1976, vol. IV, No. 11, table IV–1.

The next most important source of Mexican imports is the European Economic Community (EEC), from which Germany is now the predominant supplier. This is followed by the United Kingdom and France, but Japan and Canada are also important sources of imports. Bilaterally regarded (a dangerous mercantilist practice that should be avoided), Mexican trade with the EEC, in which the ratio of Mexican imports to exports is 4.2 to 1, is more "unfavorable" than with the United States, in which the ratio is only 2.5 to 1. The same is true of its trade with the European Free Trade Area (EFTA), Argentina (in 1975) and Spain. The only conclusion to be drawn from these bilateral imbalances is that a great potential *may* exist for increasing exports to these countries, although on the other hand opportunities may be even greater in countries to which export efforts have already borne most fruit. It is the multilateral pattern of trade that counts, the network of surpluses and deficits among pairs of countries. These offset one another in the overall balancing of accounts.

Mexican trade with the Latin American Free Trade Area (LAFTA) has been growing, and as a whole it has become more balanced. It increased by more than 50 percent both ways in 1974, but in 1975 while Mexican exports were stagnant its imports from LAFTA increased by 42 percent. Trade with LAFTA still represents a small share of the Mexican total, because the trade of the Latin American countries is much greater with the outside world than among themselves. The fact that after 15 years of preferential treatment within the area only 5.5 percent of total Mexican foreign trade is with LAFTA raises the question of the prospective return to costs incurred in trying to expand sales to LAFTA as compared with trying to expand them to other parts of the world.

Until the 1976 devaluation, the official Mexican view was that the deterioration in the balance of payments was caused by the fall in world incomes (mainly in the United States) and the consequent decreased demand for Mexican exports. It is now realized, however, that high prices reduced the demand for Mexican exports of goods and services and that the overvalued peso from 1973 onwards stimulated imports of goods and services. In 1976, the current deficit, which was $2.5 billion for nine months, is estimated to be somewhat over $3 billion, a reduction of perhaps 15 percent from the 1975 level. Further improvement depends on maintaining price and exchange rate stability, on crop results, and on a host of influences affecting exports of manufactures and raw materials, not ot mention changes in foreign demand for Mexican exports. Among these manifold influences, developments in the petroleum industry have great weight, and this is perhaps the best place to consider them.

PETROLEUM

The balance-of-payments effect of oil is enormous, but to give it prominence here is not to deny its employment effect, which is probably also very considerable though of a smaller order of magnitude. It is no exaggeration to say that the 1973 oil and gas discoveries in the states of Chiapas and Tabasco revolutionized the outlook for Mexico's balance of payments. That is why it was possible to finance the deficits of 1974–76 by foreign borrowing. A growing deficiency in crude oil supplies with the consequent increasing imports, was replaced in 1974 by self-sufficiency. In 1975 crude exports were valued at over $390 million. This year, self-sufficiency or even a small export surplus is expected to be achieved in refined products.

Hard data have been difficult to come by on prospective Mexican oil production and exports. Therefore the recent publication by Petroleos Mexicanos (PEMEX) of a brief account of its program for the 1976–82 sexennium is to be welcomed. Probable reserves are now estimated at 11 billion barrels of oil, condensates and gas, by comparison with proven reserves of 6.3 billion barrels at the end of 1975. The new government has asked the Instituto Mexicano del Petroleo (IMP) to verify the estimates with a firm of international experts. Seismological data point to the probable existence of much larger supplies in other land and off-shore areas.

The total 6-year budget 1976–82 is 900 billion of presumably current 1977 pesos, of which capital expenditure is 310 billion pesos. At 20 pesos to the dollar these are $45 billion total and $16.5 billion capital. The latter is $3.5 billion greater than the amount given in the prospectus of October 1976 for the international bank loan of $800 million to Mexico. The planned capital expenditure is to be used as follows: exploration 8 percent, "exploitation" 46 percent, refining 15 percent, petrochemicals 17 percent, distribution and transport 13 percent, and miscellaneous 1 percent.

The plan contains four programs, with different time spans. The Basic Program is to meet domestic demand and leave 150,000 barrels per day (bpd) of crude oil for export in 1977, add 50,000 bdp for export each year, ending up in 1982 with 400,000 bdp exported. Program II is for secondary recovery by water and gas injection techniques, which will "double or triple the volumes recoverable". This will add 130,000 bdp to exports "during the sexennium", and therefore just over 20,000 bdp on the average. Program III is to drill more wells in the Chiapas-Tabasco field, which will add 50,000 bdp each year from 1978 onwards. Finally, the Maritime Program will add "during the sexennium" 118,500 bdp from the Gulf off Campeche or nearly 20,000 bdp each year on the average.

Using these average figures the plan envisages daily exports in barrels of about 190,000 in 1977, 300,000 in 1978, 420,000 in 1979, 550,000 in 1980, 670,-000 in 1981 and nearly 900,000 in 1982. The export of crude at $12 a barrel yields about $440 million for each 100,000 bdp, so these rough estimates imply earnings of about $850 million in 1977 rising to nearly $4.0 billion in 1982. The figures may imply greater export earnings than these, however, because by 1982, production is estimated to reach 2,242,000 bdp of crude and 3.6 billion cubic feet per day of gas, leaving a surplus for export of 1,100,000 bdp of crude and/or refined products. If this volume of exports were attained it would bring in $4.8 billion of foreign exchange, and proportionately more as refined products replaced crude.

Refining capacity is to be raised from the present 865,000 bdp by 93 percent to 1,670,000 bdp in 1982. The objective in expanding capacity is to export the surplus above domestic demand for refined products at low marginal cost that "will leave their important value-added in the country". Technology is being provided essentially by the IMP, but useful foreign technology would not be rejected.

PEMEX has a monopoly of basic chemical production, and self-sufficiency with an export surplus is also expected to be achieved by 1979 in that industry. Total investment is to be 55.5 billion pesos ($2.8 billion present dollars) in the 6 years to raise annual production by 258 percent to 18.6 million tons, with a value of 165.2 billion pesos, of which 26 percent ($2.1 billion) will be exported.

The foreign exchange earning prospects of the plans for the petroleum and related petrochemical industry are bright. Two difficulties, however, should not be overlooked: the growth of domestic consumption of petroleum products at 7.5 percent a year and of basic petrochemicals at over 20 percent a year, which may pre?empt production; and the enormous capital cost of the refining and petrochemical parts of the industry. The government is conscious of the former difficulty, and it may take conservation-oriented measures to reduce the rate of growth in domestic consumption, for which rationing through higher prices would seem to offer the best hope of success. As for the latter difficulty, closer examination of the basis of policy may cast doubt on the rationality of creating "value-added" in a capital-intensive industry, to keep it in an acutely capital-scarce country with an enormous surplus of workers.

CAPITAL INVESTMENT

A considerable shift occurred in the shares of government and private consumption from 1969 to 1974, the last year for which figures are available. As a percentage of GDP, government consumption increased from 7.7 percent to 9.5 percent and private consumption declined from 73.8 percent to 70.0 percent during these years. At the same time gross fixed capital investment increased from 19.4 percent to 22.8 percent of GDP and then rose in 1975 to 23.7 percent of GDP.

Considerable public discussion has taken place in recent years of the changing participations of the public and private sectors in the investment process, with not much reference to the facts. As Table IX shows, the performance of the private sector in fixed investment since 1970 showed creditable rates of increase annually, making allowance for the effects of the monetary turbulence resulting from domestic inflation. The share of private sector investment in the total fixed investment fell from 64.5 percent in 1970 to 63.3 percent in 1974 and 57.5 percent in 1975, notwithstanding its annual increases of 20.9 percent, 46.1 percent and 13.8 percent achieved in the inflation years 1973–75, when the central bank was diverting a large percentage of private savings to the public sector.

TABLE IX.—GROSS FIXED INVESTMENT IN MEXICO, 1970–75

[In billions of current pesos]

Year	Total (1)	Percent annual increase (2)	Percent of GDP (3)	Public (4)	Percent annual increase (5)	Private (6)	Percent annual increase (7)	Ratio (6)/(1) percent (8)
1970	82.2	12.9	19.6	29.2		53.0		64.5
1971	82.2		18.2	22.6	(-22.6)	59.6	12.5	72.5
1972	101.2	23.1	19.8	34.7	53.5	66.5	11.6	65.7
1973	131.0	29.4	21.1	50.6	45.8	80.4	20.9	61.4
1974	185.7	41.8	22.8	68.2	34.8	117.5	46.1	63.3
1975 [1]	232.6	25.3	23.7	98.9	45.0	133.7	13.8	57.5

[1] Provisional.

Source: Bank of Mexico.

Whatever the causes may have been of this decline in private sector investment — the forced pace of public sector investment, lack of confidence because of political factors, distrust and bewilderment caused by the inflation — the fact is that Mexico had not the capital resources to sustain a higher rate of private investment with the rising rate of public investment. In the three years 1972–75, public investment increased by 185 percent, an average cumulative increase of over 60 percent a year. Capital-shortage is a distinctive feature of Mexico, as of all developing countries.

PROSPECTS AND PROBLEMS

To reiterate, Mexico is one of the two show-pieces in the developing world. Its record of success is reflected in, as it is in part attributable to, the large supporting loans it has received from the World Bank and the Inter-American Development Bank. With its great national resources, its excellent human material, its growing industrial base and its improved infrastructure, Mexico has a great development potential.

When financial stability has been regained, Mexico can look forward to the resumption of its traditional high level of growth. Output will begin to benefit from the public investments of the last few years, of which the most spectacular achievement is the doubling of steel capacity from 4.8 million tons in 1970 to 10 million tons in 1977. In addition to its oil resources, Mexico will also soon be self-sufficient in iron, in fertilizers, and possibly in basic petrochemical feed stock. Investment in water resources has added about one million hectares (over one-third) to the area irrigated. Fertilizers, sold well below world prices, are used on 50 percent of the land under cultivation as compared to only 25 percent in 1970, and near self-sufficiency in food is claimed to be assured. The petrochemical industry is aiming at and is said to have the potential of becoming an exporter on a world-scale.

The outlook for developing its resource potential is not, however, uniformly roseate. Mexico is rich in minerals, but in quantities imperfectly known. The industry is over 90 percent in Mexican ownership and operation, and development may be hampered by instiutional obstacles to the use of foreign capital and technology. Similar obstacles, increased by complications from land tenure, obstruct the development of the potential of its enormous forest resources. Mexico has virtually no plantation forests, and assured supplies to an integrated pulp, paper and timber industry, even if the other conditions for establishing it were present, is hardly conceivable at present.

As part of the effort to diminish rural poverty, the policy of decentralizing industry has achieved little. The Las Truchas steel complex, combined with local iron-ore production and a new port at Lazaro Cardenas on the Pacific

Ocean, will create one new "pole" of industrial development. Beginning in 1977 with an output of 1.3 million tons of steel, by 1982 it is to produce 3.5 million tons and in the fourth and final stage in the mid-1990s its output will be 10 to 11 million tons. This kind of development determines the geographical location of industry but does not change the existing concentration, which has proved in other countries to be an intractable problem.

Another obstacle to development lies in the weakness of the capital goods industries in general and of the machine tool section in particular. The protective commercial system to encourage Mexican production of consumer goods gave free entry to the necessary foreign capital equipment, thereby introducing a bias against home production of capital goods. Other factors, such as the xenophobic attitude to foreign capital and enterprise, the need for large capital investment and the risks involved, may also have been responsible for the weakness, but the fact is that Mexico had done less well than Brazil and some other developing countries in the production of capital goods. The Mexican government has been recently trying to interest private domestic and foreign capital in a list of opportunities to produce capital goods, but it is doubtful that adequate interest can be aroused under the present laws, which restrict foreign ownership and control to a maximum of 49 percent, and unfavorably affect patent protection.

Organizational competence and efficiency, the importance of which is being increasingly recognized in studies of economic growth, is being given greater attention in Mexico as elsewhere. Increased funds in the 1977 budget have been allocated to education in recognition of the importance of this aspect of economic development. Whatever further progress is made in this respect, however, capital will remain the main factor limiting economic growth and the expansion of employment for the rest of this century.

The main longer-term problem of Mexico stems from its rapidly increasing population (though the annual rate of increase has possibly fallen to 3.2 percent from the previous 3.5 percent), combined with the long-standing failure to create enough jobs for the 700,000 new entrants annually to the working-age group. In the absence of official statistics, the total of unemployment, underemployment and non-employment is variously estimated at 25 percent to 40 percent of the work force. The equivalent in full-time unemployment might be as high as 25 percent or higher. Low agricultural productivity is at the root of rural poverty, and of the migration to the cities that exacerbates urban misery. Here again more capital for investment is a necesary part of any remedial action.

The new President has shown his awareness of the nature of the main problem confronting Mexico. In one sentence in his inaugural address on December 1, 1976, he epitomized the present economic situation of Mexico. Speaking of the need for strengthening the government to play its proper role in a "mixed economy", the President said: "We must obtain surpluses to continue to grow. We do not want wealth invented by contrivance or decree, a practice which would put us in the paradoxical position of accelerating inflation and distributing illusions."

The present state of financial and general economic instability is the result of the failure of the previous administration to have regard to the time-frame within which socio-economic objectives could be attained. In the pursuit of social justice it attempted to do too much too quickly, with the result that the social injustice of inflation affected all classes, but especially the poorest. This is the tragedy of the last 6 years in Mexico; that the objectives could have been achieved without inflation; and that the very people the government was trying to help are those who have suffered most from the inflation — the poorest or *marginados.*

Six main problems with which Mexico is confronted can be identified. The solution of them can be contemplated only within their particular time-frames.

(1) Inflation is the most immediate urgent problem and its solution should be given the highest priority. Resolute government policy could relatively quickly stop domestically-created inflation.

(2) At the other extreme in the time-frame is the problem of moderating the rate of increase in population. The problem arose because of the success, especially after 1940, in reducing the death rate while the birth rate continued at the same high level. Mexico has now adopted a family planning

policy, but the measures so far taken do not amount to an all-out campaign to lower the birth rate over the next generation. Yet, a nationally organized effort is indispensable to increase the ability and the will of the nation to diminish the rate of population growth.

(3) Agricultural productivity is the key to the solution of the problem of redundancy of rural labor and to some extent of urban labor. It has come to be recognized that the redistribution of land is an illusory solution of the problem of rural poverty. Increased productivity will make it easier to feed the whole country with fewer agricultural workers, while expanding the internal market and creating a surplus for export. As in other aspects of national prosperity and productivity, however, it has come to be realized that availability of the vast material capital resources needed is not the whole story. Raising productivity requires the preparation, through education and training, of human resources. It involves raising the standard of education at all levels. In this sense, improving agricultural productivity is a very long-run problem.

(4) Industrial efficiency and international competitiveness constitute a problem that is now engaging the attention of the Mexican government. Encouraged by a rigid protectionist system, Mexican industry has grown in spectacular manner in the last thirty years. But growth has been oriented to the internal market, and the structure of industry has been biased towards consumption goods and away from capital goods. To realize its future potential, Mexico recognizes that it needs an open trading society, geared more fully into the world system. This implies a more flexible and complex economy, with greater participation in the geographical division of labor with the outside world. To achieve this new status, Mexico will have to go through a painful period of readjustment and transition that may list for a considerable number of years. Until the transition has been made, and Mexican agriculture and industry are put to the test of foreign goods entering under the protection mainly of a general import tariff, its international competitiveness will not be assured. Its efficiency will be neither measured nor under pressure to improve.

(5) The Mexican economy is a "mixed system" of public and private enterprise, which in itself raises no problem. The difficulty lies in the nature of the future "mix" in Mexico, the extent to which the State is going to participate as an operator of businesses in all parts of the economy. On this, government policy is not clear. Not unnaturally, opinion in the country at large and within the government itself is divided on the role of the state in business. A clear policy directive is needed to give confidence to th private sector. The philosophy of the new President has not yet been enunciated but the beliefs of his forbears were in the tradition of economic liberalism. Writing as late as 1921, his grandfather made clear his belief that private enterprise is the most effective means yet discovered of engaging the energy and initiative of individuals on the widest possible scale in economic activity. Its organizational superiority is the strongest and the least ideological argument for the system of private enterprise and initiative. But it also provides the best defense of freedom itself. If some such declaration of belief could be clearly enunciated as the foundation of government policy, understanding between the public and private sectors on the future nature of the mixed system would be assured.

(6) The problem of attracting foreign direct investment capital is obviously relevant to the number of jobs being created. It is one of vital importance, bacause the pace of future economic development is at stake. In discussions of the subject, objectively is difficult to attain, partly because foreign direct investment is provided largely by transnational corporations, about which there is still much misunderstanding.

Foreign direct investment is a declining amount in the Mexican long-term capital account. In the 1960s it averaged 34 percent of the net long-term capital inflow, and was 40 percent in 1970, after which it declined steadily to 9.3 percent in 1975. Yet equity capital of this type has the great virtue of involving no obligatory amortization or interest payments, and it carries with it access to sophisticated technology and management techniques that cannot be introduced into a country so quickly by any other means.

The role to be played in Mexico by foreign direct investment has been under discussion for many years. Specific laws and decrees restricted the scope of foreign direct investment in various economic sectors, and in regional development, by prohibiting it altogether, or by limiting its percentage participation in companies charteded under Mexican law. The administration of the law was flexible.

In the generalized legislation on foreign investment and on the transfer of technology enacted in 1973, the administering authorities have been given discretionary power to make exceptions to some of the restrictions placed on foreign direct investment, from which it may be argued that flexibility has been preserved. The sweeping requirement, however, that not less than 51 percent of the equity must be Mexican-owned can hardly fail to have the effect of spreading Mexican capital and enterprise more thinly over the economy. It must likewise have the effect of diminishing the inflow of foreign capital by restricting to 49 percent the amount to be invested in any one venture.

The total Mexican productive apparatus is said to be about five per cent foreign-owned. A vast amount of additional investment is necessary, above the 20 per cent of GDP now being invested on the average annually (less than $20 billion), to create the hundreds of thousands of extra jobs required to absorb the new entrants into the work force and to diminish the large existing body of unemployed. No official study has been published of the total capital needed to create these extra jobs, for comparison with prospective domestic savings and future capacity to borrow abroad. Yet such a study might reveal that a capital gap existed of a dimension that could only be filled by foreign direct investment.

Recently this problem has been tentatively examined and aired in the private sector. On the very optimistic assumption that domestic savings can be raised from 17.5 percent to 25.0 percent of GDP by the year 2000 (which is open to question in a low per capita income country), the conclusion is reached that "foreign savings" used by Mexico will in the next 25 years have to increase by 3-fold as a percentage of GDP. An even more striking conclusion is that the need for foreign direct investment will increase 7-fold as a percentage of GDP because the cost of servicing the foreign debt strictly limits the amount that can be borrowed. Rough estimates of this kind serve to high-light the problem.

Foreign direct investment is provided mainly through the vehicle of the transnational corporation. Economic literature written in Latin America exhibits a certain animus against the transnational firms, an animus that has infected opinion in Mexico. A government study of future capital needs might reorient Mexican attitudes towards the transnationals. It might also cause the government to consider seriously whether its policy should be to try to maintain the present small percentage of foreign ownership; or whether alternatively it should take steps to attract more foreign direct investment into Mexico, with the knowledge that countries with ten times the Mexican percentage of foreign ownership are suffering neither economic nor political disadvantages to offset the obvious contribution to economic development from accepting foreign ownership. For nationalistic reasons (usually called political) this may be the hardest decision of all facing Mexico in this decade.

Representative LONG. Mr. Reynolds, we are pleased to have you. Would you proceed in your own way, sir?

STATEMENT OF CLARK W. REYNOLDS, PROFESSOR OF ECONOMICS, FOOD RESEARCH INSTITUTE, STANFORD UNIVERSITY

Mr. REYNOLDS. Thank you, Mr. Chairman.

I, too, have submitted a prepared statement which I will supplement with a few summary remarks.

To a large extent I share the opinions of the first two panelists, first that there is a tendency outside of Mexico to myopically magnify the crises that we see, not just in Mexico but throughout Latin America, which I think reflects a fundamental problem in our system.

This problem is that Latin America not only receives a low profile, it is virtually invisible to most Americans and to the media which provides them with their input of intelectual food for thought so that when something happens down there that is particularly remarkable, it gets blown out of all proportion and it is very difficult to set that in a framework of the steady impressive progress which is being achieved throughout most of Latin America.

Mexico is no exception to that. The other point I would like to make, which is Mr. Opie's principal point, is that the economies and societies, cultures of the United States and its continental partners have historically been intimately linked, sometimes pleasantly, sometimes unpleasantly.

The continental United States includes territory which once amounted to one-third of the Mexican territory. Its labor force includes well over 2 million—and this is a rough figure—well over 2 million illegal Mexicans.

That number of workers is over half of the unemployed in the United States. I don't mean to suggest that the Mexican workers are displacing American workers. I am only mentioning that to give an order of magnitude.

This represents 13 to 20 percent of the Mexican labor force. In other words, one in ten to one in five potential Mexican workers are finding employment in our country.

Sixty percent, as Mr. Opie said, of Mexico's trade has steadily been with the United States and is changing is composition.

In my appended remarks, it is shifting from primarily raw material and primary products exports to manufactured exports, particularly to the processing stages, value-added stages of processing of manufactured goods where low-cost Mexican labor below the border is receiving intermediate goods from the United States, processing them, and reselling them back to the United States in order to take advantage of the wage differential between the two countries.

American exports——

Representative LONG. Mr. Reynolds, that would be to a great extent, without acknowledging it, the economic integration of which Mr. Opie and Mr. Wilkie spoke, without ever saying it existed; wouldn't it?

Mr. REYNOLDS. There is a silent economic integration between Mexico and the United States.

There is a silent economic integration between Canada and the United States. Where I think the problem lies is not that markets and wages in disequilibrium are brought into equilibrium through trade and finance or migration, but that we elect not to notice it.

Now, there are several philosophies about whether it makes sense or not for a Government to ignore what is going on in the economic domain.

The classic example, I think, in this hemisphere is Uruguay, which went for 50 or more years without even taking a census. They knew nothing. They had no gross national product estimates until recent years and they had no idea statistically about what was going on in their economy and society.

The ultimate effect on that country was devastating because when the economy began to come apart, as the prices of their exports began to decline and as their population, which was heavily dependent upon export rents, found those rents disappearing, and they were forced to face this difficulty, they weren't equipped with instruments or the information on which policy had to depend.

I think we do have information, some information about our economic relations with Mexico.

We certainly have very little information about the migration dimension. The Immigration and Naturalization Service is making an effort to improve its information using characteristic techniques and has dragnets on the border occasionally, rounding up everybody it comes across, counts the numbers, multiplies by the number of days they didn't have dragnets, and that gives them a figure for immigration.

There are ways and means of getting at what you would call seat-of-the-pants estimates, but they are just about what the name implies.

Mexico gets its information on tourism at the border from the United States Department of Commerce data; and I wouldn't want to make a comment upon how reliable I thought those figures were; and, of course, that is a large part of Mexico's balance of payments surplus—excuse me; that is a part of the balance of payments which at least traditionally has been in surplus, the border transactions.

In short, I agree with the points raised about the ability of Mexico to resolve its problems with a modicum of good sense and pragmatism and a minimum of ideological hysteria and with Mr. Opie's suggestion that we need to integrate the economies; my only qualification being that they are already pretty well integrated as the chairman pointed out; but, I would add that I don't agree with the philosophy of hear no evil, see no evil and speak no evil when it comes to the political economic dealings of the United States and its neighbors.

The long-term implications of that are disturbing to put it mildly. One becomes vulnerable to all sorts of attacks based upon imperfect knowledge distorted to favor the opposition of certain activities.

To give a couple of examples, we have works like Cary Levett's "Silent Surrender," attacking foreign investment of the United States in Canada, attributable to the fact that there is relatively little clear and forthright treatment of how Canada can effectively deal with the enormous amount of foreign investment in her territory and at the same time benefit from it.

We have the studies on foreign investment in Mexico and Brazil that came out of Senator Church's committee, which are an example of some points of view about that sort of problem that appeared a bit out of context.

We have, of course, the position of the American labor unions about the threat to the American working class of both illegal immigration and the jobbing out of manufacturing across the border.

All of these ad hoc responses to problems are those of which we should have a more deliberate, sustained understanding if our policies are to proceed in a reasonable fashion and not in terms of response to a series of crises.

I was asked to give a little resume of the situation, the outlook and the implications for the Mexican economy as it faces the United States in terms of its implications for U.S. economic policy.

The present situation, as I have presented in the paper, is not something that arose out of the last administration completely.

The policies of the 1950's were conducted in an atmosphere of misleading superficial stability. The exchange rate was pegged at the same level from 1954 through last August, even though the inflation level in Mexico had marched steadily ahead of the U.S. with the exception of 1 or 2 years during that period.

By the end of the 1960's, the Mexican Peso was probably 20 to 30 percent overvalued and many observers at that time were calling upon the Government to introduce some flexibility into its exchange rate policy or it would be sowing the wind and reaping the whirlwind.

Sure enough, it did.

In the area of fiscal policy, the expenditures were marching along as a rising share of gross domestic product. Throughout the 1960's, taxes weren't keeping up, and the Government was financing part of the deficit through voluntary finance which represented the sale of Mexican securities to its own public and also to foreigners, and this voluntary finance, financed the deficit, which was not inflationary to the extent it was financed with Mexican money, and depended upon relatively high interest rates in Mexico and a minimum of exchange risk—that is, the risk of devaluation.

As the balance of payments got increasingly out of line the exchange risk increased. As foreign interest rates went up, that part of the attractiveness of the peso declined, so both in terms of yield and in terms of risk, voluntary savings in Mexico became less attractive; and you can trace that back to the exchange rate policy which was struck there and the fiscal policy which was pretty well stuck.

When President Echeverria came into office, he had a lot of advisors who recognized these problems. It was not something that the International Monetary Fund thought up.

He elected not to pay much attention to those advisors. As a matter of fact, I wouldn't mention names, but a number of them were politely invited to do other things later in his administration because it wasn't deemed feasible to engage in the long overdue fiscal reforms.

Meanwhile, expenditures increased. Now, here Mr. Opie makes a point about the British model and the extent to which the Mexicans might be importing from Cambridge and from other places, a rather footloose, fancy-free public investment policy which involves very large increases in expenditure which are not funded through taxes or through voluntary financial savings.

This isn't anything new. This has gone on through the last administration, and it is likely to continue. I think, however, one has to understand—I am sure Mr. Opie does understand—the pressure that the Mexican government is under to engage in infrastructure expenditures for the socially impoverished and economically impoverished members of its society and also the need to break bottlenecks in basic industries for the benefit of private investment.

Moreover, the share of government investment in gross product in Mexico was still well below that of most countries in the world. So, it isn't as though Mexico is one of the big spenders of the third world. What it is is one of the small taxers of the third world, and it was able to get along with the small taxing philosophy as long as it could attract voluntary financial savings internally to cover the deficit; but, it is going to have to come to grips with fiscal reforms.

This, of course, is the major issue probably facing the incoming administration.

This brings us to the outlook. I think the incoming president has already made a speech in which he announced a rather immense increase in global government spending, 38.9 percent increase in total Federal, State and local spending, plus the decentralized public enterprises for the next year.

You don't have to do much back-of-the-envelope calculating, as Mr. Opie and I have done, to come out with a pretty large increase in the share of GNP of government spending. The government itself expects to fund only 75 percent of that increase in spending with tax revenues and revenues of its public enterprises which means that 25 percent of the 38 percent is going to be deficit financed.

I did my simple political arithmetic here, and I came up with a figure for the deficit as a share of GNP of 10 percent, assuming a rate of inflation of about 16 percent for next year, and about 4 percent real growth.

Mr. Opie said 14 percent. I think I would like to suggest that is way out of line. It would be 12.6 percent of the present GNP; and that's a big deficit.

My calculation show the deficits up to the last few years have been 4 percent of GNP.

Mr. OPIE. I would just like to interrupt there and say that what I was talking about was the gross borrowing requirement of 221 billion pesos, and the deficit will be less than that. The gross borrowing requirement includes amortization of debt.

Representative LONG. I understood your point to be in that direction, Mr. Opie.

Mr. REYNOLDS. Yes; I made that statement because the figures in my appended remarks do present a deficit as a share of gross domestic product.

I think in order to bring the figures up to date, probably, I wanted to insert 10 percent. That is still a very large deficit; and there is no way in the world that that is not going to be inflationary unless by some miracle the government could suddenly increase the voluntary financing of the deficit by turning around the attractiveness of Mexican financial assets, bonds, deposits, and so forth.

I don't think they could turn it around from one day to the next, but it would certainly be possible to move in the direction of a Brazilian-style indexing of financial assets for a secondary bond market which would permit bond prices to vary and interest rates to establish themselves at a level competitive with those outside Mexico; but I think that would have to go hand in hand with an exchange policy which would permit some mild flexibility in the exchange rate.

Those who are worrying about fluctuating exchange rates can cover themselves in the foreign exchange futures market.

I think Mexico would be advised to move in the direction of more flexibility in its own financial policies, fiscal policies, and exchange policies and that the United States would be well advised to accommodate this, providing a reasonable degree of responsiveness to Mexico's need for swap arrangements with the Treasury, the Fed, and the Fund, to the extent that the United States has influence in that organization.

However, this still suggests that the Mexican situation is going to continue to be inflationary, and you will see my calculations in the paper, that the present price of the peso is just about in line with historical relative price changes which will mean we should expect the peso to move down some more over the next year or two or three; and it would be nice if that movement could be done in a sort of managed flow arrangement rather than in sudden jerky movements which lead to instability in the current and capital accounts of the balance of payments.

Now, there is one other dimension, and that is for public investment. It looks like the Mexican Government is going to continue to take the ball and run with it as far as investment expenditures are concerned, whatever the private sector may feel about that.

This I would probably be more accepting of than Mr. Opie, but I certainly understand his concern. The question then is: Is there likely to be an attractiveness for private investment—because if private investment doesn't begin to increase once again as a share of total investment in the economy, then there will be a relentless movement toward statization of Mexico.

My feeling is that the private sector will probably reestablish its confidence in the long-range growth of the economy, consistent with the expansion of the market which these infrastructure expenditures and bottleneck breaking Government expenditures imply.

For one reason, even though taxes are likely to be increased for excess profits, as the Mexicans define them, there will be Mexican tax incentives for investment, according to the President's plan, and the Mexican Government, among third world countries, is particularly accommodating to the private sector.

So, it is a country where one can make a pretty good profit. Furthermore, I think that the United States has an excess supply of savings, given the investment potential in this country, and that Mexico is an ideal place for those savings to find their way into productive investment.

This leads to implications for the United States. I think that the United States has far more to gain from improving and formalizing its economic links with Mexico than it stands to lose, because we are increasingly finding ourselves priced out of the world market in terms of the relationship between American wages and labor productivity. And the third world's growth will continue.

As a result, American capital is going out of the country and locating in the third world, even though research and development on which it depends takes place within our borders.

The other side of that disequilibrium is that American labor, wages being much higher than those abroad, creates a black market for labor in which we have both visa-jumping immigration and illegal Mexican immigration coming in and taking advantage of the wage differential.

If we were to formalize these relationships and provide mutual safeguards the United States could vastly broaden the pool of labor at its disposal, vastly broaden the market within which its investments could operate and continue its growth not merely on a national basis but on a continentwide basis.

Canada could also benefit from this type of integration because Canada's labor is even a more serious problem in terms of the relationship of wages to productivity than American labor.

Canada has, I believe, a complementary relationship not only to the United States but also to Mexico.

So in my paper I called for the beginnings of formal institutionalization of economic, financial, investment, and migration relations among the countries in the form of a standing commission.

I will read that last paragraph, if I may.

Representative LONG. Go ahead, sir.

Mr. REYNOLDS. In view of the difficulties facing Mexican policymakers and the links between Mexico and the United States in the areas of trade, direct investment, finance, and migration, not to mention the related problems associated with a common frontier and strong social and historical ties, I recommend the establishment of a standing commission comprised of representatives of both countries to provide a continual exchange of information on these matters between the two Governments, to introduce issues deserving the attention of the respective Governments, and to propose means to deal with basic problems affecting economic, financial, labor, territorial, and other relations between the two countries.

Ultimately, it is hoped that representatives of Canada might also join to form a tripartite North American commission to facilitate the common economic development and social progress of the continent.

Thank you.

Representative LONG. Thank you very much, Mr. Reynolds. You made a most valuable contribution. Your prepared statement will also be made a part of the hearing record.

[The prepared statement of Mr. Reynolds follows:]

PREPARED STATEMENT OF CLARK W. REYNOLDS*

Why Mexico's "Stabilizing Development" Was Actually Destabilizing: With Some Implications for the Future

THE NATURE OF THE RECENT CRISIS

The recent precipitous decline of the peso from 8 cents per dollar to 4 cents or less in a matter of months, combined with an almost hysterical outflow of

*I wish to thank Hector Saoches Sepulveda and Gerardo Espinona for research assistance in the preparation of this paper.

funds from the country, marked one of the most serious disorders in the Mexican economy in decades. The dimensions of the capital outflow will probably never be accurately measured, nor will the sources of the many rumors that circulated in Mexico and abroad about peasant invasions, attempted land redistribution by outgoing President Echeverria recriminations and counter-recriminations between the President and representatives of business, finance, and agriculture. All of this has left observers with a strange feeling of disbelief. And the fact that the peso has moved back to about 5 cents is small consolation to the many who saw capital losses far in excess of those predicted by the most serious estimators of exchange rise before August. How fundamental were the causes of the crisis, in terms of the underlying structure of the economy, the society, and the political system which Mexico has uniquely developed over the half-century since the Revolution? And how likely are the structural problems, of which the peso crisis was but a symptom, to continue into the coming Administration? Finally, to what extent do these factors bear on the United States, in terms of trade, finance, foreign investment, and migration as well as in terms of political stability of our neighbor to the south? The following is an attempt to place these questions in historical perspective and to deal with the mainly economic aspects.

BACKGROUND

After World War II Mexican per capita income was about $150 per year and almost 60 percent of the population was in the rural sector with incomes well below that level. The war had given a boost to Mexican manufacturing which policy-makers decided to continue through artificial means including tariff protection, licensing arrangements which restricted competing imports, government tax holidays and subsidies, the establishment of public enterprises in key sectors, and the provision of electric power, roads, communications systems, and fuel at subsidey prices. The expense of the government industrialization program and related infra-structure projects were met in part by deficit financing. Since thare was little domestic or foreign appeal to the low-yield government debt, the result was severely inflationary. Between 1948 and 1954 the wholesale price level rose at 8.4 percent per annum. Meanwhile the U.S. price level rose at 2.0 percent per annum. Since the two economies were so closely linked by both trade and financial flows, this widening gap between peso process and dollar prices had was reflected in pressures on the exchange rate. In short, internal imbalance resulting from fiscal policy deficits led to external imbalance and pressure on the exchange rate. The peso was devalued between 1948 and 1954 from 4.85 to 12.50 to the dollar where it remained until last August.

At that time there was considerable debate about the "inflationary" policies of the postwar Mexican administrations, and especially about the forced-draft industrialization which more conservative observers at home and abroad called unsuited to the underlying comparative advantage of the country for raw material and primary product production. The inflation, they claimed, was illustrative not only of the deficit financed program but of the inability of Mexico to establish a suitably productive industrial base that could effectively complete in the international market. Nevertheless, many foreign firms invested in Mexico, principally from the United States. to take advantage of the growth philosophy and the expanding internal markets which they would be able to serve behind protective trade carriers. Subsequent performance of the economy tended to bear out the optimists who had claimed that once capacity was installed, the new economic structure would be capable of satisfying demand for years without significant inflation. In fact the period from 1950 through the 1960s was one of increasing rather than decreasing stability as measured by both inflation rates and pressures on the exchange rate. (See Reynolds (6) and Solis (7)).

"STABILIZING DEVELOPMENT" 1960–1970: A MISNOMER?

Both the Lopez Mateos and Diaz Ordaz administrations (Dec. 58 - Nov. 64 and Dec. 6 - Nov. 70 respectively were periods of relatively conservative economic policies favoring the private sector. While we shall look in greater detail at the second *sexenio* (1965-70) its policies were a continuation of the first half of the decade. The overall picture for the 1960s shows an apparently coherent and successful performance of the economy if one looks only at the aggregate indicators. (Table I)) Gross domestic product grew at between 6 and 7 percent annually, and prices were relatively stabe increasing only slightly between the two periods from 2.0 to 2.9 percent a year. At the same time the exchange rate remained pegged at 12.50 pesos per dollar, helping to preserve price stability by avoiding a rise in the peso cost of imports. Argiculture showed signs of weakness but was still producing most of the basic commodities needed in the urban market as well as vital foreign earnings. However, beneath the surface a number of problems were brewing:

(a) A high and growing rate of underemployment resulting from productivity gains in both agriculture and manufacturing, rapid demographic growth since the 1940s, massive urbanization, and growing female participation in the work force.

(b) Rising pressure for land redistribution due to lags in rural income growth, concentration of land in commercial farms at the expense of smallholders, and unkept promises of land reform.

(c) Deterioration of income distribution, as upper income rose disproportionately, combined with growing resentment of the gap between rich and poor.

TABLE I.—GROWTH RATES OF THE MEXICAN ECONOMY, 1955–75

[Compound annual growth rates in constant prices]

	1950–60	1960–65	1965–70	1970–75
Gross domestic product	6.1	6.9	6.7	5.5
Agricultural production	6.3	4.6	2.7	[1] 1.4
Manufacturing production	7.3	8.8	8.3	[1] 6.2
Mining and petroleum	5.3	6.8	7.9	[1] 9.1
	Compound annual growth rates			
Wholesale Price Index	6.4	2.0	2.8	10.3

[1] 1970–74.

(d) Pressures for wage increases which were becoming more difficult to disarm through time-honored means such as co-opting of union officials and jailing of dissidents.

(e) A chronic and growing trade deficit financed by increased dependence on foreign capital, with a deteriorating positive balance in tourism and "errors and omissions" (unidentified capital flows and related transactions).

(f) An anemic public sector revenue base, given the large and growing demands for current and capital expenditures of government caused by rapid population growth, urbanization, and development.

In short while the productive capacity that had been installed during the inflationary years of the 1940s and 1950s permitted growth to proceed into the 1960s with greater price stability, and while the private sector continued to respond to profit incentives, the pattern of growth was not matching the burgeoning social needs of the country, nor were the policies promoting it capable of insuring the maintenance of the very conditions on which their success depended. The many basic problems facing Mexico, a few of which are listed above, were not being resolved by "stabilizing development" policy. To deal with them effectively would have required major changes in both tax and expenditure policy as well as long-term balance in the foreign sector. Unfortunately the appearances of stability caused officials to postpone needed reforms in fiscal and exchange rate policy, uncertain about their benefits and fearing that any alteration of the status quo would frighten the private sector and stampede domestic and foreign capital thereby upsetting the "miracle." Because problem (e) and (f) above are most closely related to aspects of internal and external balance, and because they would have been most responsive to changes in fiscal and trade policy, we deal with them below. The findings indicate the extent to which "stabilizing development" had within the needs of instability.

The balance of payments, 1965–70.—The balance of payments provides a barometer of general economic conditions as they reflect the overall strategy of development. Throughout the 1960s and specifically during the period 1965-70 the balance on current account (balance of goods and services) showed a continuously increasing deficit (Table II). The deficit was $367 million dollars in 1965 and increased to $946 million by 1970. During this period the deficit was financed basically by direct and indirect foreign borrowing, "long term capital" inflows representing 68 percent of the current account deficit from 1965 to 1970. Short term finance, the figures for which are hidden in "errors and omissions," provided the remainder of support for the deficit, and the combined inflows allowed a modest increase in reserves.

TABLE II.—THE BALANCE OF PAYMENTS IN SUMMARY, 1965–JUNE 1976

[In millions of dollars]

	Balance of goods and services	Balance of merchandise	Balance of services	Errors and omissions	Long-term capital [1]	Special drawing rights	Change in reserves
1965	−367	−696	328	262	94		−21
1966	−391	−749	358	174	224		6
1967	−506	−951	444	200	340		40
1968	−632	−1,152	520	302	379		49
1969	−473	−1,126	653	−172	693		48
1970	−946	−1,564	618	499	504	45	102
Total, 1965 to 1970	−3,315	−6,238	2,921	1,255	2,240	45	224
1971	−726	−1,456	730	218	669	40	200
1972	−762	−1,453	692	234	754	39	265
1973	−1,175	−2,202	1,026	−378	1,676		122
1974	−2,558	−3,691	1,133	−136	2,731		37
1975 [2]	−3,769	−4,275	506	−406	4,340		165
(1976)	[3] (−1,509)	(−1,769)	(250)	(−400)	(1,839)		(−69)
Total, 1971 to 1976 [3]	−10,499	−14,836	4,337	−868	12,009	79	720

[1] Note that "long-term capital" includes foreign direct investment, public sector, and some private sector borrowing abroad (including credits repayable in the following year) foreign issue of government debt, and related transactions. Short-term capital flows including foreign sales of domestic financial assets (including financiers bonds) and foreign deposits in domestic banks appear in the residual item net "errors and omissions" so that a positive balance for errors and omissions tends to reflect net short-term capital inflows and a negative balance net capital outflows. "Change in reserves" is an official accounting concept so that the figures in the last column do not necessarily correspond with those of the World Bank or other international institutions.

[2] Preliminary figures.

[3] January to June preliminary figures. Bank of Mexico.

Mexico was caught in a typical dilemma. Its rapid growth required the importation of raw materials and intermediate goods if rising internal demands were not to place serious pressures on the price level. Exports were unable to grow at a pace adequate to satisfy import requirements, partly because the new industrial capacity was not yet sufficiently competitive to permit rapid growth of manufactured exports, while growing domestic needs and a slowdown in agricultural development were reducing the export potential from that sector. The fixed exchange rate did not permit relative prices to move in favor of greater exports and home goods consumption over inports, such as might have taken place with devaluation. In short, the fundamental problem lay in the balance of trade, the deficit of which grew at a compound rate of 16 percent annually, merchandise exports expanding at only 3 percent while imports grew at 9 percent per year. (Table II) Because of a favorable and improving balance on service accounts, which increased at 13 percent annually, the balance of trade deficit was partly offset in these years, but at a decreasing rate so that the current account deficit grew at 19 percent per year, an alarming trend. A number of observers urged the government to take action through exchange rate adjustments, taxes on import-intensive items, plans to increase the competitiveness of domestic manufactures abroad, and other measures to alleviate the deficit, but instead most of the burden fell on foreign borrowing. This was the line of least resistance. External credit was readily available during the "stabilizing development" period, so that extensive loans were floated abroad.

As a result of foreign borrowing to cover the current account deficit, not long-term capital inflows increased from a relatively low base in 1965 at an astounding rate of 90 percent annually, totallying $2.2 billion dollars by 1970. (Table II) Of this amount, loans increased by 34 percent annually, and foreign direct investment by only 5.5 percent. Most of the borrowing was undertaken by the public sector, counting upon the reputation of the economy for stability. By 1970 the accumulated government foreign debt was over $7 billion dollars and interest payments since 1965 had quadrupled. Without considering repayments of principal, debt service amounted to 35 to 95 percent of new borrowings during the period. The country was running fast to stay in the same place. From the viewpoint of the balance of payments the appearance of stability was increasingly misleading.

An important part of the overall strategy was the fixed exchange rate. It has been argued that the pegging of the exchange rate was a desired measure in the sense that it was a signal to various groups in the society that the government did not desire to alter the pattern of production and distribution with the private sector. (Bazdresch (2).) A pegged exchange rate was not only a fixed price for the currency but a way of subsidizing private sector production and consumption with cheap imports, financing the resulting deficit with government indebtedness. The government would, at least in the short run, bear the burden of both debt and exchange risk. However effective this pallative, it was temporary. In the absence of default the society would eventually have to pay the external burden of the debt through the export of goods and services. Hence the real issue is whether or not the borrowing served to increase Mexico's long term capactiy to repay in terms of export potential and the ability of the economy to substitute imports. And was the time that was purchased by forestalling necessary reforms used to improve the policy-space of future administrations who would have to put on the squeeze? Serious structural inefficiencies resulted from the policy, caused by a highly protected industry (though effective protection was less than in other developing countries), allowing producers to service a captive market at high costs and with low quality products. Thus the exchange rate policy did not favor exports of manufactured products, while licensing and tariff policies protected local producers from relatively low-cost imports. Given the degree of effective protection, the somewhat overvalued peso caused by the fixed exchange rate (see Table IV) subsibized imports and taxed exports when precisely the opposite was needed to restore external balance.

Fiscal policy: 1965–70.—During the latter half of the 1960's fiscal policy continued to foster private domestic and foreign investment to maintain the growth path established in earlier years. This involved tax incentives and government expenditures on infrastructure and basic industries (such as oil and electric power) necessary for profitable investments in the private sector. Bottlenecks and monopolies were broken by the creation of public enterprises and the selective admission of foreign firms which competed in private markets often over the objections of domestic enterpreneurs, though the general thrust was favorable to the growth of private sector production and principally manufacturing. During this period the government obtained a majority of its additional revenues from labor income, indirect taxation (much of which was regressive), and domestic and foreign borrowing. The effect of fiscal policy was for the most part to subsidize capital income, stimulate private savings and investment, and limit consumption by taxing wage income and expenditures. Some wage goods and particularly basic foodstuffs were subsidized through CONASUPO (the state marketing agency) and sold at below market prices in working class areas. Also social security benefits and education programs were greatly extended throughout the country.

Thus the Diaz Ordaz Administration (Dec. 1964 - Nov. 1970) was a time of relatively conservative fiscal policies and of private and foreign investment, "tax expenditures" (revenues foregone through fiscal incentives and avoidance of sharply progressive taxation to sweeten the climate for the investor. Most innovative were financial policies which provided incentives to savers to accumulate financial assets (bonds and savings deposits) in Mexican banks and *financieras*. These voluntary savings were then used to fund the government deficit as well as investment programs of the private sector avoiding inflationary pressures. So successful was this program that versions of it were later adopted by Brazil, Colombia, and other developing countries with significant results. The Mexican method was to offer a nominal interest rate of 9 percent or more on fully liquid deposits (or bonds) of financial institutions. Note that pesos were freely convertible into dollars under conditions (until the late 1960s) of minimal exchange risk at a fixed exchange rate maintained by the Central Bank. Since the price level was increasing at that time by only 2 to 3 percent per annum, this meant that the real rate of interest to savers was 6 to 7 percent, only 10% of which was taxed at the source regardless of the saver's income bracket.

These combined policies of fiscal conservatism and private sector funding of the government deficit through transfers of financial savings (based on increased holdings of government debt by the banks and *financieras*) were a key element in the "stabilizing development" strategy. The Mexican model received much favorable publicity as a self-corrective means of providing growth with diminishing inflation and without major tax reform. The result, however, was to delay policies which would have permitted the tax base to expand at a rate commensurate with the needs of the economy. Instead, the fiscal performance of the Mexican government lagged far behind most other countries at similar stages of development. But since expenditures were also restrained, the resulting deficit averaged only 2 percent of GDP (Table III) and, as we have seen, much of it was financed by private financial savings.

TABLE III.—FEDERAL GOVERNMENT REVENUE AND EXPENDITURES AND DEFICIT AS PERCENT OF GROSS DOMESTIC PRODUCT

	Total Federal revenues	Total Federal expenditures [1]	Deficit as percent GDP
1965	$7.97	$11.21	3.24
1966	7.77	9.41	1.64
1967	7.43	9.15	1.72
1968	8.06	9.61	1.54
1969	8.06	10.54	2.48
1970	8.09	9.60	1.51
Total, 1965 to 70	7.90	9.92	2.02
1971	8.02	9.07	1.05
1972	8.62	11.53	3.26
1973	8.69	13.11	4.42
1974	8.97	12.81	3.84
1975	10.37	14.60	4.23
(1976)	(2)	(2)	(2)
Total, 1971 to 75	8.86	12.22	3.36

[1] Does not include expenditures of Government enterprise and semi-autonomous agencies on investment, which averaged 2.4 pct of GDP in period 1965 to 70 and 2.2 pct for 1970 and 71 for which figures are available.
[2] Not available.

In addition to the use of voluntary financial savings to fund the deficit, the government was relatively restrictive in expenditures during the period of the 1960's. In short, fiscal restraint on the tax side was matched by conservatism on the expenditure side, with the private sector given the major responsibility for growth and the public sector picking up the slack. There was a slight decline in the share of government current expenditures relative to investment during the period 1965-70, with about 24 percent of total Federal, state, and local government expenditures on goods and services classifiable as investment. These government investment outlays represented an average of 1.8 percent of gross domestic product during the period, to which another 2.4 percent of GDP was added by the investments of government enterprises (railroads, oil, electricity, fertilizer, sugar, social security and health services) totaling ing a growing rate of private savings and investment.

In earlier years the investment share of total government expenditures on goods and services (total exhauative expenditures) had been higher, averaging 43 percent in 1951-55, 35 percent in 1956-60, and 30 percent in 1961-62 (Reynolds (6), Table 7-2 pp. 260f), compared with only 24 percent for the period 1965-70. Hence the stability of public expenditures as a share of GDP was matched by a declining share of government investment outlays during the Diaz Ordaz administration. In those years the private sector more than made up for the decline, so that gross investment as a share of GDP rose from 16.9 percent in 1960 to 17.5 percent in 1965 and continued rising to average 18.9 percent for the period 1965-70. Hence, the "stabilizing development" strategy of delaying tax increases and exchange rate devaluation appeared to be working by attracting a growing rate of private savings nd investment.

However there were straws in the wind indicating that both laternal and external balance were increasingly threatened by the policies of 1965-70. Internally much needed fiscal reform were delayed, causing the share of government expenditure to remain among th lowest in the world. The fiscal deficit continued to exceed the share of government direct investment in GDP, having to be financed by domestic and foreign borrowing. Domestic borrowing depended upon the growth of voluntary private financial savings, and these in turn reflected relatively high real rates of interest on bonds and deposits of domestic financial institutions. Those sources of fund were tapped by the government to cover its growing deficit. However, high interest rates depended on relative price stability, because bond prices and coupon rates were pegged by the Central Bank and could not adjust to accommodate inflation. Yields also depended upon exchange rate stability, because without it exchange risk would soar wiping out the attractiveness of peso bonds and deposits.

The foreign sector was called upon to supply loan capital not only to help balance the current deficit but also to complete the funding of the domestic deficit. Of course the accumulation of foreign debt made exchange stability even more perilous, since experts languished while imports accelerated. And the favorable balance on service accounts showed signs of weakness, as Mexicans increased their purchases north of the border where prices were increasingly favorable thanks to a fixed exchange rate. To these problems of internal and external imbalance must be added those more basic needs arising from soaring population growth, land hunger, demand for renunerative employment and widespread poverty. Members of the poor and student poulations who derived little benefit from the system and had virtually no influence on its behavior, having nothing to lose, became increasingly cynical and restive. Guerilla movements erupted throughout the countryside demanding reforms in both land tenure and political control. Local houses were losing their grip on the peasants in many areas, and when military units were sent to enforce control, the hit and run tactics of the *campesinos* called into question the cost of propping up these sagging systems. Perhaps some reform of the system would be less expensive in the long run.

Meanwhile student unrest multiplied. In 1968, following trends in New York and Paris, university students took to the streets of Mexico City challenging the President and his policies. The result was confrontation with paramilitary units causing many deaths in Tlaltelolco Plaza which shocked the world on the eve of the Olympics. Diaz Ordaz was severly criticized, and his Minister in charge of internal security came face to face with a smouldering social volcano. This same minister was to become the next President of Mexico. To the economic difficulties of internal and external imbalance were added more fundamental problems of social unrest. Could the next Administration hope to deal with the issues of poverty, underemployment, and land hungar which must be resolved if true stability were to be achieved?

THE PROMISE OF "SHARED DEVELOPMENT: 1971–1976"

The Echeverria Administration took office in December 1970. Instead of the usual "musical chairs" revolving appointments of seasoned officials a new generation of technocrate (*tecnicos*) was introduced into key positions in the government. It was recognized that to correct major economic and social disequilibria, a long-term strategy had to be formulated and implemented. Both unemployment and underemployment were high, and income distribution very unequal. The trade deficit was worsening every year, and many sectors of the economy continued to operate inefficiently causing high prices and low incomes. Fiscal revenues were inadequate to finance investments needed to break bottlenecks in key sectors and to provide the necessary social services for a rapidly growing population. President Echeverrïa called for an era of "shared development" and introduced a number of measures to bring this about. (Manco Nacioual de Comercio Exterior (1) pp. 198-202).

However, even those observers most sympathetic to the new idealism were skeptical of the government's ability to harmonize profit expectations necessary for private sector investment with the fiscal needs of policy reform. The task would be especially difficult for a largely inexperienced team of technocrate fresh from the academies and barely in touch with the land and its people. The country as of 1970 still lacked a comprehensive, long-term planning framework, a luxury in which the United States had long been able to indulge, but which appeared to be a serious shortcoming for a country with limited resources and abundant needs. It was feared that short and medium-term policy measures were unlikely to materialize in a form consistent with the long-term goal of "shared development." Annual budget heads would probably play a major role in determing fiscal and monetary policy, and attempts to achieve internal and external balance would be incremental at best.

The problem of income distribution.—To understand the Echeverria Administration's stress on "shared development" it is only necessary to touch on some of the problems of distribution of the national wealth. Growth has been rapid since the end of World War II, with per capita income from $150 dollars of 1950 value, or $375 current value dollars, to a present figure of well over $1000 current dollars. This tripling of per capita was by no means spread evenly among the population, which has itself more than doubled since 1950 and now numbers almost 60 million (Table IV).

(In 1970 Mexican per capita income was sixty percent above that of Brazil but one-seventh that of the United States.)

TABLE IV.—THE DISTRIBUTION OF INCOME IN MEXICO AND BRAZIL AT THE END OF THE 1960'S

Share of households (descending order)	Percentage of disposable income: Mexico—1968	Percentage of disposable income: Brazil—1970
Poorest 10 pct of households	4	1
Next 40 pct	22	13
Next 40 pct	37	40
Richest 10 pct	37	46

Source: See Reynolds (5). In 1970 per capita income in Mexico was 60 pct above that in Brazil, but 1/7 that of the United States.

What the distribution data in Table IV imply is that if average per capita income in Mexico today is about $1000 dollars, then the poorest six million people receive only about $100 per year, the next twenty-four million $550, the following twenty-four million $925, and the upper six million $3700, an average income seven times that of the lowest half of the population. By the standards of Mexico's poor, the gap is enormous. But the richer Mexicans do not judge their welfare by the standards of their fellow countrymen as much as by that of their northern neighbors, where per capita income *on average* is well above that of the upper ten percent of the Mexican population. Nor do Mexican workers only look at urban wages in their own country as standards, but rather as wages across the border where they can save as much in a few months as they earn in an entire year at home. In short, the income distribution problem of Mexico, serious as it is, does not stop at the border. (Similarly rural workers in Guatemala look north to Mexico as a source of higher wages than they can earn at home, despite the fact that Mexico's south is one of its poorest regions.) Americans are far more myopic about their own economic benefits relative to the conditions in Mexico, than vice versa. Hence, it is difficult for us to come to grips with the problem facing Mexican policymakers, even though the consequences of their failures to handle distributional inequality is increased migration to the United States, depressing wage levels and exacerbating income distribution problems in this country.

The balance of payments, 1971–76.—During the period 1971–76 the current account deficit continued to worsen (Table IV). From the 1971 level of $726 million dollars, it reached $3,769 million in 1975 with the trend continuing in 1976. For the period 1971-75 the deficit increased at a compound annual rate of over 40 percent, due primarily to the fact that the trade balance continued to worsen. Although commodity exports rose by 19 percent annually, due in part to the sudden impressive growth of manufactured exports from new border assembly plants and increasingly competitive industries further south, commodity imports soared at 23 percent annually, cancelling out the export gain and causing the trade deficit to grow at 27 percent per year. At the same time the traditional surplus on service account, due to tourism, after rising through 1974, turned around in 1975 following Mexico's vote on the U.S. "Zionist" resolution. The boycott of Jewish tourists plus the effect of the U.S. recession had a devastating blow on this crucial sector of the ecenomy, while Mexican expenditures on tourism north of the border continued to grow, so that between 1971 and 75 there was actually a decline of 9 percent per year in the service sector balance. This condition continued through 1976, as reports of violence and instability in Mexico plagued the tourist industry. Even the sharp devaluation of the peso from September 1 onward failed to turn the trend around and even during the usual Christmas rush, flights were running well below capacity.

How was the current account deficit financed during 1971-76? Essentially in the same manner as previously, foreign direct investment was relied upon but only to supplement the main source of borrowing which was foreign loans primarily to the public sector. "Long term" capital inflows increased at 47 percent per year (Table II), with foreign loans to government growing from $280 million in 1971 to 3,054 million in 1975 (the same trend continuing through mid-1976). Even the private sector was forced to rely much more heavily on foreign indebtedness, as its registered borrowings rose from $61 million in 1970 to $164 million in 1971 to $424 million in 1975. While interest payments soared as a result of this borrowing, the rate of growth of foreign credits was so large that the interest share of net capital inflown actually declined. As to the servicing of foreign direct investment, while the inflows and outflows are scarcely comparable, the data indicate that outflows as a proportion of inflows rose from 85 percent during the period 1965-70 to 98 percent from 1971-75.

It is short term capital as reflected in the balance of "errors and omissions" which really pulled the props out from under the balance of payments. We have seen that the "stabilizing development" strategy of the 1960s had led to substantial net inflows of short term capital to take advantage of relatively higher real rates of interest on Mexican financial assets, under conditions of negligible exchange risk. However, the 1970s were quite a different story, and the shrewd short-term investor began to divest himself of peso holdings as world interest rates rose relative to those in Mexico, as Mexican inflation soared well past the nominal interest rate on Mexican *financiera* bonds and deposits, and as the risk of devaluation mounted. It cannot but be repeated that the seeds of this problem were sown before 1970, since these financial assets were not indexed for inflation nor did they offer interest rates to compensate for possible devaluation of the peso. (Here a comparison with Brazilian policy is perhaps appropriate. Brazil pursues a policy of mini-devaluation of the exchange rate and indexes the interest rates on many of its bonds and time deposits to cover both inflation and exchange risk. Hence it is capable of maintaining a degree of balance in the financial system while at the same time enduring relatively higher rates of inflation than Mexico. Only recently has Brazilian indexing fallen behind the rate of inflation, with unfortunate consequences for its financial savings similar to those in Mexico.)

So we see that between 1970 and 1975 the deficit on current account quadrupled, errors and omissions turned from a positive balance of $499 million to a negative balance of $136 million, and long-term capital inflows rose from half a billion dollars to $4.3 billion. This set the stage for the debacle of 1976. There was no question of a devaluation. The question was rather *when*? Here the experts were confounded, since few felt that Echeverria would pull the plug on the peso during his last months in office, though there was no question that such an action would be of immense benefit to his successor in preventing the political onus of devalution from resting on the incoming Administration. In fact the devaluation should have taken place much earlier. And I would argue that sound exchange rate policy for Mexico, facing as it does the need for high pressure internal development expenditures and relatively indepentdent fiscal and financial policies, should be one of flexibility (within a band subject to intervention of the Central Bank and with support of the U.S. Treasury, the IMF, and other international financial institutions.) In short a "minidevaluation" strategy, or a limited float such as the Canadian dollar enjoys, is essential if Mexico is not to return to the destabilizing trap of the past few years.

How much is enough? The degree of over and under-valuation of the peso.— The need to devalue the peso as a means of reducing the degree of external imbalance has been a popular topic for debate since the 1960s. As in most developing countries the argument centers on the degree of export and import sensitivity to changes in relative prices at home and abroad, known in the jargon of economics as "elasticity optimism or pessimism." A first step is to determine how much relative prices diverged over the period since the 1954 devaluation (which most observers felt significantly undervalued the peso.) Though traded goods prices are only indirectly reflected in the wholesale price index, Table V makes a comparison between Mexican and U.S. price levels since the mid-1950s to give a rough indication of the possible degree of secular overvaluation of the peso. It is evident that after an initial jump which somewhat destablized expectations in the late 1930s, the problem did not become serious again until the 1970s. The steady deterioration of the current account balance in the 1960s evidently caused as much by exoganeous capital inflows to expand capacity of the economy as by any growing relative lack of competitiveness of Mexican goods and services. Since the resistance to devaluation is understandable, and internal disequilibrium serves to have been a more serious problem in those years than external imbalance.

TABLE V.—MOVEMENTS OF RELATIVE PRICES BETWEEN MEXICO AND THE UNITED STATES, AND ADJUSTED EXCHANGE RATES, 1956-76

Year	Nominal exchange rate (pesos/dollar)	Movement of wholesale price indices (1956=100)			Adjusted exchange rate at end of period (pesos/dollar)	Overvaluation margin at end of period (percent)
		Mexico	United States	Mexico/United States		
1956	$12.50	100	100	1.000	$12.50	
1960	12.50	115	105	1.095	13.69	9.5
1965	12.50	127	107	1.187	14.84	18.7
1970	12.50	146	123	1.187	14.84	18.7
1971	12.50	152	126	1.206	15.08	20.6
1972	12.50	156	132	1.182	14.78	18.2
1973	12.50	180	149	1.208	15.10	20.8
1974	12.50	221	178	1.242	15.53	24.2
1975	12.50	244	194	1.258	15.72	25.8
January to August 1976	12.50	277	201	1.378	17.23	37.8
August to December 1976	20-26-20	[1] 316	[1] 205	1.541	19.26	[2] −3.7

[1] Estimate, based on 14-pct inflation in Mexico, August/December, and 2 pct in United States.
[2] Based on an exchange rate of 80 pesos/dollar. A rate of 25 pesos/dollar as of December 1976 would have been undervalued by 23 pct.

Source: For Mexico; Bank of Mexico Economic Indicators. For United States; U.S. Department of Commerce, Survey of Current Business.

Even during the first years of the Echeverira Administration the Mexican peso was able to maintain its parity with the dollar, having followed the dollar down vis & vis most of the rest of the world's currencies in the "Nixon devaluation" of 1971. However, during the past year the handwriting was on the wall. Overvaluation which had risen by five percentage points between 1973 and 1975 exploded another twelve points in the first half of 1976 to 37.8 percent by August. The subsequent float of the peso ("como una piedra," as Mexican wryly commented) caused its dollar price to decline by more than one-half before eventually stabilizing at around sixty percent of its former value at the end of the year. The rule of thumb measure in the last column of Table 7 indicates that a five cent peso is only slightly undervalued relative to parities in 1956.

The future sensitivity of the present peso exchange rate will depend upon two major factors, the extent to which internal fiscal inbalance continues, putting pressure on Mexican prices relative to those abroad, and the degree of responsiveness of Mexican exports and imports to an almost forty percent rise in the peso price of traded goods. I would expect potential purchases of Mexican exports to view the situation with favor, while Mexican imports of raw materials and intermediate and capital goods are likely to be rather price inelastic, remaining more sensitive to the level of aggregate demand than to foreign prices, since they are vital inputs in the production process, at least in the short run. Here devaluation will be passed on in the form of domestic price increases. The area where the results should be most significant is in invisible trade, since tourism and related consumer goods purchases abroad will become far more expensive to Mexicans. On the export side of the tourism balance, experience has shown that Americans respond very favorably, but *slowly*, to comparative cost of travel. In both cases, however, the advantages of the present devaluation will ultimately rest on domestic price behavior. The government has announced that prices already rose by 14 percent between August and December. While this was the highest monthly rate in memory, it is almost certainly a reflection of the adjustment of domestic prices to expected increases in the cost of imports and cannot be expected to continue at the same pace. Nevertheless the experience of developing countries such as Mexico which require intermediate imports for key sectors of the economy suggests that many of the benefits of devaluation will soon be lost unless internal balance is increased and the unfunded government deficit sharply reduced.

Fiscal policy, 1971–76.—The new administration that took office in December, 1970, found itself with a dilemma of whether to continue the pace of economic growth of previous years, running the risk of continued government indebtedness and external disquilibrium, or to slow down the economy by restraining government expenditures thereby reducing external imbalance at the expense of a higher rate of underemployment, a rate which was already considered too high to be consistent with goal of "shared development." The government took the second alternative, reducing the rate of growth of GDP and wholesale prices and the balance of payments current account deficit fell to 726 million dollars (Table I). Unemployment increased and many economic activities suffered. Manufacturing grew at only 2.1 percent and construction at 1.1 percent.

In 1972, the decision was made to increase government expenditures in order to expand output, lower unemployment, and improve income distribution. It was felt that the faster the rate of growth, the more likely that demand pressures would pull up wages and increase the share of the working class. While the reverse happened in earlier inflationary periods, such as the 1940's, when demand caused prices to rise faster than wages, those were times of immense labor reserves in the rural sector providing an abundant supply of workers at subsistance wages. However, the rapid growth of the 1940s, 1950s, and 1960s had begun to deplete this "reserve army" of impoverished labor, and migration (both legal and illegal) to the United States had assisted in the process, so that by 1970 the question was less one of unemployment than of relative supply and demand for labor by skill and educational level. In other words, the problem was one of *underemployment*. Mexican law was working long hours at difficult tasks often with as much physical productivity as U.S. workers but for extremely low wages. Hence what was needed to improve labor's share, it was felt, was more growth in labor-using activities in manufacturing, construction, commerce, and service, which would improve both relative prices in those sectors and, by implication, the level of real income of the working class. (Feesing (3), and Trejo (8).)

Nevertheless the stop-and-go government expenditure policy of 1971-1972 did not work so well on the upswing, because even though the public sector outlays rose, private investment slowed down. The government was therefore unable to increase its tax revenues (which depended on the level and rate of growth of private production) at the required pace and thus found itself with a deficit which had tripled as a share of GDP and the need for much increased domestic and foreign borrowing. Subsequently worldwide inflation and economic recession in 1973 and 1974 had an adverse impact on the economy in the form of higher prices and weakened export demand. This in the midst of high underemployment called for still further increases in government expenditures financed in traditional ways. Together with already-committed investment projects in electricity, oil and petrochemicals, fertilizers, and sugar which were badly needed to avoid bottlenecks and permit sustained growth, the new expenditure added to inflationary pressures.

Domestic inflation, in turn, placed a drag on export growth in 1975 and 1976, which as we saw already confronted with sluggish foreign demand. The need for scarec foreign exchange obliged the government to continue borrowing abroad at even greater rates, and it again found itself facing high budget and trade deficits and greatly increased indebtedness leading ultimately to the September 1, 1976, devaluation. The policies of the government were increasingly resembling those of the late 1940's and early 1950's, when the economy was overheated to expand infrastructure and production capacity. It was hoped that the resulting output and productivity growth would serve to bank the fires of inflation. Table II reveals that the deficit as a share of GDP had risen from an average of 2.02 percent in the period 1965-70 to 3.36 percent from 1971 to 1976. The deficit as a share of government revenues had risen from 26 percent to 38 percent between the two *sexendos*, and as discussed, the voluntary funding of the deficit from domestic sources was diminishing.

On the revenue side, from 1971 to 1975 Federal revenues continued to grow, the share increasing by two percentage points of GDP between 1971 and 1975 (Table II). This was due to improvements in tax collection and to moderate tax reforms in 1973 and 1974. However the changes were small and government participation remained at a low level by international standards. Also other factors contributed to the fiscal gains that did take place, as inflation in 1973, 1974, and 1975 occurred at rates of 12.5, 23.8, and 17 percent respectively. These general price increases, followed by substantial wage increases, allowed the government to obtain greater tax revenues from the higher nominal income tax brackets that applied. In addition, resources were undoubtedly freed for the government's use by the "inflation tax" (savings induced by the decline in real cash balances), since the price level increases were largely unexpected, at Mexico had not experienced rates of inflation of more than 6 percent for over a decade.

Reviewing the period 1971-76, it can be considered rather a period of "destabilizing development" than of "shared development." Although the Echeverria Administration had indeed inhereted many problems from its predecessors, it did not implement the fiscal and financial measures needed to achieve the desired objectives of more egalitarian and independent economic growth. In addition, by delaying exchange rate adjustments to the last minute, it exacerbated the instability which ensued. Nor did it establish a new exchange rate mechanism which could cope with future changes in relative prices at home and abroad. In 1971 the Administration decided perhaps wisely to slow down the economy in order to diminish the government's financial difficulties and ease the trade deficit. However since its aim was to increase employment and redistribute income, as was sorely needed, it could not allow the restraints on the economy to continue indefinitely. What later happened was a too-rapid recovery of the rate of growth associated with a very high budget deficit. Large and growing public expenditures, which rose from 9.07 to 14.10 percent of GDP between 1971 and 1975, should have required major fiscal reform. Instead, as had been expected, the reforms that did materialize were too little and too late. At the same time worldwide events caused import prices and the cost of foreign debt to grow even faster than expected, pushing the deficit even higher and adding to internal inflationary pressures.

THE PRESENT SITUATION AND FUTURE PROSPECTS, WITH IMPLICATIONS FOR THE U.S.

The incoming Administration retains many of the Echeverria team. and ex-Finance Minister Lopaz Partillo cannot be held entirely unaccountable for the policy problems of the past few years. Yet the external shock of OPEC inflation and world recession are unlikely to repeat themselves. and already there is promise of a change of style if not of enhance in the new government's economic policies. Indeed style may be of the essence, in view of the volatility of business-government relations at the present time, especially centers such as Monterrey, Guadalejaro, and the Pacific Northwest, which are traditionally suspicious of the Mexico City *audsterice*. It has long been rumored that the Echeverria Administration was convinced of the need for it least two *sexenios* of similar policies, if the essential underlying reforms on the structure of the economy and society were to be achieved. The choice of Lopez Portillo, a pholosophical confreme and personal friend of the outgoing President, created the conditions for a policy bridge between the two periods.

What is now essential to the success of the incumbent, if a true miracle of growth *with* distributions to be achieved, is in entente with the more progressive sectors of the domestic private and foreign business communities. In addition the government needs a wide margin of policy space from its trading and lending partners abroad, especially in view of the four billion dollars in foreign debt coming due this year and a total foreign debt of over twenty billion. The first objective, greater harmony between government and key elements in the private sector, ought not to be impossible. Just as there was a "new group" of businessmen after World War II willing to follow the import-substituting strategies of the Aleman Administration (Mosk (4)), so there are important elements in the private sector today capable of seeing the long-term advantages of rising income for the working class and the markets which they imply. Thus a willingness to have profits taxed in the short run is consistent with profitable long term investment plans, to the extent that those taxes are channeled into activities which permit the rise of the population to raise its productivity as well as its purchasing power. However one should not underestimate the challenge facing the government in reaching this goal, or the degree of hard core resistance from many quarters to any attempt to raise taxes of redistribute rents. The task Lopez Portillo has set for his Administration is no less awesome and precarious than that of FDR in the depression-rid 1930s, and the challenges to his policies are likely to be as severe.

Finally the position of the United States is crucial to the success of the new government. Partly because of the "border industry" program which assembles component parts from the U.S. for reexport to this country, making use of lower cost Mexican labor, Mexico's exports to this country have shifted heavily from food and livestock products to manufactures. The "food and live animal" share of exports fell from 47 percent of total exports to the U.S. to 26 percent between 1970 and 1974, while manufactured goods doubled from 31 to 59 percent. Meanwhile the proportion of total Mexican exports that go to the U.S. has remained high and constant, averaging around 69 percent. The share of Mexican imports from the U.S. is almost as high at around 61 percent. The main change in the composition of imports from the U.S. is a doubling of the share of "food and live animals" from 6 to 13 percent between 1970 and 1974, reflecting Mexico's lack of attention to the rural sector, at least until recently, as well as rural to urban migration and rapid urban growth. Among imports from the U.S., "machines and transport equipment" is by far the most important category, reflecting the extent to which the growth in the capacity of the Mexican economy depends upon supplies of producer goods from this country. One may expect that with import substituting manufacturing of capital goods this share may decline (and it did from 48 percent in 1970 to 42 percent in 1974).

The recent devaluation is likely to favor Mexico's current economic balance with the United States which has tended to remain in strong deficit for decades, and the products of border assembly plants as well as other manufactured exports should become more attractive to U.S. consumers. U.S. direct investment during the 1970s doubled, from $1.2 billion in 1970 to $2.4 billion in 1975, reflecting the confidence of American investors despite the widely recognized difficulties of the period. This confidence was probably well-placed, since the Mexican market is certain to mushroom, especially if the mass of the population is permitted to experience increases in its level and share of income. One advantage of the low income base from which the distribution policy must proceed, in that relatively modest redistributions of earnings on the margin, from profits and rents of the upper income groups toward wages and salaries, could substantially increase the absolute income levels of the poor. Hence those foreign investors willing to participate in the government's program are likely to find the new "rules of the game" quite attractive at the bottom line.

A final caveat is with respect to the two other basic links between Mexico and the United States, in terms of credit policy and migration. It has been shown in some detail how the problems of internal imbalance led to the growth of foreign indebtedness, much of which is in relatively short term credits, one-fifth of which will become due within a year. There will undoubtedly be a need to spread this indebtedness over a longer period consistent with the country's capacity to repay in the form of expanded exports of goods and services. Major petroleum finds have been announced which could place the country in an enviable position within a decade, depending upon the government's decision to drill and expand processing and distribution facilities. These petroleum reserves could be used to provide a base for eventual debt repayments as well as to purchase the imports needed to expand the production base of the economy in directions more consistent with social distribution. However, the history of Mexico militates against any cavalier attempt to relinquish control of the exploitation of its mineral resources. Petroleum policies must be pursued with patience and concern lest the resources be allowed to further postpone the fiscal and financial reforms necessary to achieve the government's goals. Moreover, the growing demand for land by peasants in many regions of the country will have to be not by policies which are likely to hurt export crop production at least in the short run. History has again shown that land redistribution has by no means meant declining production and productivity *in the medium run*, but the initial costs of dislocation and uncertainty can be high. Hence there is also a need to have the financial degrees of freedom for the government to engage in such programs while there is still time.

In the area of migration, there is no hard information on the extent to which Mexican's are participating in the U.S. labor market, either seasonably or as permanent migrants. The numbers suggested from intercept programs by the Immigration and Naturalization Service at the border indicate that the annual inflow is more than a half-million. Some argue that the stock of legal and illegal Mexican-born workers in the U.S. is from two to three million, or up to one half of the number of persons currently unemployed in this country. Given a work force in Mexico of over fourteen million, this is a significant number of workers amounting to 13 percent or more of the labor force. It is clear that any suddent attempt to repatriate the Mexican workers in the United States would be a devastating blow to the employment policy of that country, and would almost certainly have a crippling effect on both wages and the share of income of the working class. This could do more than any other policy to damage the success of the Mexico shared-growth strategy and would destabilize the political situation as well. The consequences of major economic and political instability in Mexico to the United States can hardly be overstated.

In view of the difficulties facing Mexican policy makers, and the links between Mexico and the United States in the areas of trade, direct investment, finance, and migration, not to mention the related problems associated with a common frontier and strong ancial and historical ties, I recommend the establishment of a standing Commission composed of representatives of both countries to provide a continual exchange of information on these matters between the two governments, to introduce issues deserving the attention of the respectiv governments, and to propose means to deal with basic problems affecting economic, financial, labor, territorial, and other relations between the two countries. Ultimately it is hoped that representatives of Canada might also join to farm a Tripartite North American Commission to facilitate the Common economic development and social progress of the continent.

BIBLIOGRAPHY

(1) Banco Nacional de Comercio Exterior, "*Mexico; la politica economica del nuevo gobierno*", Mexico, 1971.

(2) Bardreach, C., "*La deuda externa y desarrolloo estabilizador*", U.S. - Mexican Financial Relations Conference, Stanford University, 1974.

(3) Keasing, P., "*Employment and Lack of Employment in Mexico: 1900-1970*" Research Memorandum No. 64, Center for Development Economics, William College, Williamstown, Mass., March. 1975.

(4) Hoak, S.A., Industrial Revolution in Mexico, University of California Press, Berkley, 1957.

(5) Reynolds, C.W., *The Mexican Economy: Twentieh Century Structure and Growth*, Yale University Press, New Haven, 1970.

(6) ———, "Mexico and Brazil: Models for Leadership in Latin America," fr: J.W. Wilkie, et al, *Contemporary Mexico*, Papers of the XV Initernational Congress of Mexican History, UCLA Latin American Center, Los Angeles, 1976.

(7) Solis, L., *La realidad economica mexicana: Retrovision y perspectivas*. Siglo Veintiuno, Mexico, D.F., 1970.

(8) Trejo Peyon, S., "*El desmpleo en Mexico: Caracteristicas generales*", *Comercio Exterior*, XXIV, pp. 703-738, 1974.

Representative LONG. Mr. Wichtrich, would you please proceed.

STATEMENT OF AL R. WICHTRICH, PRESIDENT, AMERICAN CHAMBER OF COMMERCE OF MEXICO

Mr. WICHTRICH. Thank you, Mr. Chairman. I think first I should explain a little bit about what the American Chamber of Commerce does, not only in Mexico but also in other countries overseas.

I think it is a valuable vehicle for our Government to understand what we do. We are an organization, nonprofit, mostly American businessmen who formed these organizations and have only as their own main objective to promote trade between the host country and the United States.

In our case in Mexico, our chamber was started in 1917; and we have 2,200 corporate members. Most of U.S. transnationals are members of this organization.

Many Mexican companies are members of this organization because they subscribe to our policy of trade with the United States.

So, we are, in effect, carrying the flag for the United States overseas.

We are business ambassadors. We are interested, of course, in the trade relations and friendly relations that exist between Mexico and the United States.

There are some 39 AMCHAM's overseas; and I submit that they are valuable vehicles for this committee, for liaison, securing information, touching the grassroots feeling of what is taking place in these countries.

Certainly, the previous comments made by Professor Wilkie, Mr. Opie and Mr. Reynolds are extremely interesting.

I will try to put these all in context for the purpose of this hearing.

Professor Wilkie, I think, mentioned a very important phrase, that of "long-range planning." It is very difficult to plan especially in a developing economy because of the scarce capital for investment, development and so forth unless it is with long-range planning.

The case in point I might say is the generalized system of preferences which gives Mexico a tremendous opportunity to take advantage of the U.S. market but yet the investment required to do this, the technology, the know-how to get involved in the U.S. market is quite difficult.

Here it will take long-range planning.

The possibilities of special arrangements, special treatment also were mentioned by Professor Wilkie and are extremely important.

Whether we like it or not, Mexico forms our southern border. We have this long border between Mexico and the United States. We don't have troops along that border. It is a friendly border. It does present special problems that you will be apparently talking about at your next meeting with Governor Castro of Arizona.

There are 62 million people south of us. We mentioned the work force; it is very limited; the social pressures that exist in Mexico; and the tremendous natural resources of Mexico.

It behooves our Government, the U.S. Government, to have a friendly and prosperous neighbor to the South. Another word that was mentioned is understanding. I think we must understand Mexico's people, Mexico's constitution, and Mexico's political base.

We have a mixed economy in Mexico. Often-times we make the mistake that we relate U.S. conditions to the Mexican conditions.

Of course, we find them different. Mexico is different. It is a sovereign nation that has its own problems, a proud nation.

They have many social problems. These social pressures and problems are reflected in their economic and political decisions, not oftentimes understood by our Government or the press in the United States.

For the last four decades, the Institutional Revolutionary Party has been in control in Mexico. They will probably be in control for some decades to come.

You have a central governing long-range goals. These goals must be understood. Within the Mexican constitution, you can swing far to the left and far to the right, all within the constitution, oftentimes difficult to understand here in the United States.

President Echeverria, of course, within the constitution, in my opinion, swung far to the left.

It was necessary at that time because of the recognition, public recognition, of social problems that had always existed in Mexico; but at this time they were publicly recognized: the poverty, the lack of growth in the agrarian areas, a great deal of economic nationalism, a striving for independence from the United States.

They did not want to be dependent on the United States. There was a lot of rhetoric about the third world. Mexico became committed to the third world.

All of this confuses a lot of people that perhaps could better be understood within their long-range goals. The fact that Mexico has a lot of state-owned businesses which the private sector would rather see become part of the private sector and not of the public sector—a state operated company.

It is hard for us to understand. The crisis that has been mentioned before during the Echeverria administration, I think, evolved because these problems were being made known to the public.

The so-called opening of more democratic processes within the Mexican Government—as a result, the previous administration lost credibility; and, of course, the devaluation of the peso, as you mentioned, Mr. Chairman, and prior to that time there was a lack of capital, a lack of confidence in the government.

There was open hostility between the private sector and the public sector. Despite all of this so-called crisis we did have a free turnover from one president to the other. We didn't have the military takeover that was so rumored up here, the bank accounts were not frozen, et cetera. This, I think was as a result of lack of confidence and credibility in the Echeverria administration that caused this.

Nevertheless, I think we saw a very normal transfer of power from one man to another man, from one government to another government.

Obviously, the lack of confidence in the Echeverria regime affected the business climate. The devaluation of the peso, of course, did hurt many U.S. transnationals. It hurt them in the fact that when they consolidated their statement, their pesos did not amount to the same number of dollars as they had anticipated.

The fact that many U.S. transnationals rely on U.S. imports, of course, this became costlier. Prices went up, especially in the automobile industry, and as a result, you do have many companies releasing workers because it was not only the higher cost of imports but it was the higher cost of wages, because of the inflation rates, the devaluation.

You had labor increases as high as 23 percent at one time. However, I would say this: I think that the U.S. private sector in Mexico has responded very well.

Companies are continuing with their plans for expansion and development, considering, of course, that the expertise of the transnationals is quite great, having operated in Brazil, in France, in other countries where you have devaluation and you have inflation.

I think this is a very important point as far as the management of U.S. transnationals is concerned in Mexico.

I think Mr. Opie has explained very well the causes of the devaluation, what brought it about. I think Mr. Opie mentioned the budget, the economic effect, the future economic picture of Mexico.

I think we are going to see an austerity program in Mexico, at least for this year, probably efforts to create a broader base for collection of taxes.

You mentioned the excess profits tax. I think this was mentioned to me by government officials that this was necessary as a tradeoff with labor because everyone was anticipating that the first sign that would indicate whether or not there was serious effort by the Mexican Government to control inflation is to make an effort to convince the Mexican labor sector that it should not demand a high minimum wage increase.

I think this was proved by the fact that the minimum wage increase was limited to 10 percent.

Problems between Mexico and the United States I think are well known, and proved how special relations can work and work effectively.

That is the work being done by the United States and Mexico as far as drug controls and narcotics controls. Apparently, that is working very effectively. If that can work as a special relationship, other long-range planning programs can work as a special relationship between Mexico and the United States.

The new president, Jose Lopez Portillo, I think, is a man that is unusual in that he did not come from the former government's Ministry of the Interior.

This Ministry of the Interior is a very unique organization where you control all of your internal political pressure within the government, but he came from the Secretary of the Treasury and certainly his background as an economist, administrator, former banker gives us a lot of confidence, and his approaches have been very practical to solving these problems.

The reorganization of the government seems to me to indicate that it will work in a more efficient manner. Certainly, his understanding of the problems of the Mexican private sector and the foreign private sector are very gratifying.

I think one of the greatest things that happened between the Echeverria administration and the Portillo administration is that Lopez Portillo immediately recognized the need to regain the confidence of all sectors in the Mexican Government. Certainly, the Mexican private sector responded and they have signed 10 sectorial agreements.

As I understand them, they are really letters of intent where the private sector and the public sector will work together to reach certain goals within the next 6 years.

The relationship between the Mexican and the U.S. private sector and the public sector I think has greatly improved.

There has been more understanding, more dialogue. Although this Government is only 6 weeks old, we are already beginning to see this.

We believe that there will be a more liberal interpretation of the foreign investment law. At least in my discussions with government cabinet-level individuals and the President I have gathered the impression that there will be a more practical understanding of the application of this law.

Illegal migrants, of course, to the United States, is a problem that affects the United States. It is a tremendous problem.

The only solution I see to that is developing the rural areas of Mexico so these people will stay in Mexico and not migrate to the United States.

I am afraid that the devaluation of the peso will probably increase the desire of the Mexican farm worker to come to the United States because, whereas, if he sent $1 back, it was 12.50 pesos.

Now, if he sends $1 back, it is 20 pesos. I think we have to use a rifle-shot approach and help Mexico in all possible ways to develop the rural areas so these people will remain in that area and not venture into the United States looking for a livelihood and jobs.

The need for U.S. direct private foreign investment I think is great. I think it has been recognized. When you consider what Mexico's foreign debt is, and you consider what U.S. companies remit to the United States, there's no proportion.

There is no question in my mind that U.S. private foreign investment is one of the best ways to stimulate the economic development of Mexico.

Mexico and Venezuela, I guess, are the only two countries on this continent, this hemisphere, that are self-sufficient in oil.

Mexico's proved crude oil reserves were mentioned recently as being 11 billion barrels. What the reserves are, I don't think anybody really knows because I think you have to be a petroleum engineer to determine what the reserves are.

I don't think Mexico really knows what these total reserves are at the present time. They are, I would say, much greater than 11 billion now proven.

Certainly, their electrical generation capacity has doubled within the last 6 years. They have just announced they want to double it again within the next 6 years. They are self-sufficient in steel.

They certainly have a lot of mineral reserves. Mexico has tremendous possibilities for creating export markets, a great need for foreign capital to come in and create industries to manufacture capital goods.

Certainly, the petrochemicals is a very promising area for U.S. transnationals. The tourism industry, of course, has suffered.

I can't say whether this is anybody's fault, whether anybody is to blame. Certainly, newspapers have the right to publish what they think is right; but, I think many of these reports that have come out in the United States aren't documented.

They should be documented and both sides of the story should be presented. Certainly Mexico's tourism industry in the past has generated a net to the Mexican Government of around $500 million.

There is no reason why this shouldn't increase to $1 billion a year. Of course, when you consider Mexico's trade with the United States, Mexico is the fourth best customer of the United States, and this tourist dollar that goes to Mexico will be spent in the United States.

There is this mutuality of interest. We should have a greater understanding of Mexico. We should plan on a long-range basis.

There should be a constant dialogue. For example, I see no reason why during certain times of the year vegetables shouldn't be grown in Mexico and exported to the United States. I see no reason why during certain times of the year maybe corn, which can be produced so much cheaper in the United States, could not be exported into Mexico.

I think this type of objective planning, long-range planning, a special relationship should be adopted. This old cliche has been used so often, and it is the best one I can think of—that when the United States sneezes, Mexico catches pneumonia.

This is true, because of the disparity in the economies.

I believe, Mr. Chairman, this winds up my comments and I am open for questioning.

Representative LONG. Thank you very much, Mr. Wichtrich.

We appreciate you coming from Mexico, knowing the temperature there and the temperature here. I think you suffered more than culture shock here today.

Your prepared statement will be printed in the hearing record, without objection.

[The prepared statement of Mr. Wichtrich follows:]

PREPARED STATEMENT OF AL R. WICHTRICH

My name is Al R. Wichtrich, and I am President of the American Chamber of Commerce of Mexico. Founded in 1917, "AMCHAM MEXICO" is a voluntry, autonomous, non-profit association with approximately 2,200 corporate members. In that membership is represented the major part of U.S. direct private investment in Mexico.

As I understand the area of interest of this committee, it involves essentially an assesment of the current political, social, and economic situation in Mexico and the prospects for the future under the new administration of President Jose Lopez Portillo.

I am sure all of you are sufficietly familiar with Mexico's history to permit me to limit myself to a brief review. Mexico's social, economic, and cultural roots are as complex as they are diverse. During the Colonial Period, Mexico's indigenous population came under the unifying rule of the Spanish Crown.

When the Spanish were overthrown, Mexico went through a succession of violent civil wars. In one of these, the political and economic power of the church was broken. In the most recent times (1910-1920), reforms were initated that have guided the nation's subsequent economic and social progress.

The "Modern Era" for Mexico dates from the early 1930's and is characterized by swift and constant economic development, in which the state has played an increasingly dominant role. President Lazaro Cardenas nationalized most of the railroads in 1937, and a year later he won a significant victory over the oil companies, most of whose interests were nationalized.

Following World War II, Mexico accelerated industrial development by providing protection and incentives to manufacturers of products that formerly had to be imported. One by one, foreign interests still in control of key economic activities were induced to sell out to the Mexican government or to Mexican investors (notable examples are the electric power industry). As a result, the Mexican government today controls approximately 50 percent of the nation's productive apparatus, either as an outright owner or as a majority or minority stockholder. The areas include fertilizers, petroleum, hotels, tourist resorts, newspapers, automobile plants, freight car manufacturers, sulphur, textile mills, steel mills, and airlines, to mention just a few. The share of the federal public sector in the gross domestic product rose from 18 percent in 1970 to 26 percent in 1975.

The rationale behind this centrally managed economy can be found in what the Mexicans refer to as the "ongoing revolution," which is the inspiration for the national drive for self-determination. This in turn is a product of a long and often humiliating history of foreign control and influence, in which Mexicans not only lost a major part of their territory but have seen foreign cultural patterns displace or distort their rich indigenous and colonial heritage. Former President Luis Echeverria probably best expressed this assertion of individuality when he said: "It is difficult to develop our own human and natural resources, though our own effort, employing our own imagination. But this is the only road open to a nation jealous of its independence."

POLITICAL AND ECONOMIC SITUATION

A new administration, elected for a period of six years, took office on December 1, 1976. Before attempting to evaluate the significance of the Presidential succession in Mexico, it should be understood that Mexico has been governed by a single party for the past four decades. This has meant an exceptional degree of continuity in the pursuit of long-range goals.

Each succeeding sexenium, of course, bears the indelible stamp of the personality of the President. During the previous administration, strong emphasis was placed on reform in the area of domestic social and economic policy as well as in foreign policy. Mexico under President Echeverria took a new approach to foreign investment. It became strongly aligned with the Third World in the economic as well as the political sense. It intensified social programs to benefit the poor. It gave new impetus to Mexico's desire for political, economic, and cultural independence.

During the final months of the Echeverria Administration, it became increasingly apparent that the process of social and economic reform was creating financial problems as well as social tensions. These could be perceived in various symptoms, including deepening hostility between the public and private sectors, impatience of the low-income majority as their benefits rapidly eroded under the impact of inflation, as well as disillusionment of Mexico's disproportionate agrarian population as promises of land distribution bore little relationship to the amount of disposable acreage.

The gap between expectations and reality widened. Discontentment touched off legitimate as well as artifically instigated movements of protest and confrontation — the most notable in recent months being the land invasions in northern Mexico. On numerous occasions, Mexican businessmen expressed serious misgivings not only about government encroachment into areas traditionally regarded as belonging to the private sector, but about the growing tax burden imposed to support social programs.

The economic malaise that had been glossed over for so many months surfaced on September 1 of last year when, in spite of numerous official reassurance to the contrary, the peso was devalued after 22 years of monetary stability. Although the danger signals had been noted by perceptive observers for many months before, the devaluation surprised and shocked most of the population, including normally prudent businessmen who were caught with dollar obligations that imperiled the very survival of their enterprises. Labor unions demanded and received wage increases, adding an even greater burden to already afflicted business enterprises. Prices went up in proportion to — and sometimes out of proportion to — the devaluation-increased costs. The unemployment rate, long one of the nation's most critical problems, went up as beleaguered companies began to trim personnel to reduce operating expenses.

The causes of the devaluation were multiple. They include an inflation rate well above that of Mexico's principal trading partners, a burden of foreign indebtedness estimated at some $20 billion, deterioration of Mexico's export competitiveness, a disappointing performance of the normally productive tourist industry, wage increases unrelated to increases in productivity, and huge amounts of public money poured into social projects and state-owned enterprises that, while desirable and in many instances indispensable, nevertheless generated inflationary pressures.

The final few weeks of the outgoing administration were characterized by almost total lack of credibility in the government. This not only accelerated the flight of domestic capital and further debilitated a weak peso but gave rise to a psychosis that induced the Mexican people to believe even the most palpably absurd rumors, ranging from freezing of bank accounts to precise times and places of military coups.

This was the unenviable setting when the new President took office on December 1. He recognized at once that the most urgent need was to restore confidence. In his inaugural address he gave a realistic and sober analysis of the crisis and issued an appeal to all sectors to work together to get the nation's derailed economy back on the track. He announced specific measures that gave reassurance of a more understanding and conciliatory attitude toward the private sector.

Almost immediately, the atmosphere and uncertainty gave way to one of optimism and confidence. The Mexican people seemed to react almost to a man in deciding to give the new President a fair chance to cope with the nation's economic problems. The peso's recovery from a low of 28 to one to the current 20 to one, as a result of measures taken by the official bank, did much to rebuild public confidence.

At least part of the explanation for the high expectations held for the new President can be seen in his personality and his background. Jose Lopez Portillo represents a break with tradition in the Presidential succession in Mexico, inasmuch as he came out of the Finance Ministry rather than the Ministry of Government, or Ministry of the Interior. (This latter is a ministry that deals largely with internal order and with political relationships between the federal government and the state governments.)

President Lopez Portillo is an economist with a strong background in money management — taxation, economic analysis and planning, budgeting, and administraiton. This is probably an excellent clue to the way Mexicans themselves view the problem areas during the next six years and the kind of ability they feel is needed to handle them.

Even in his pronouncements as a candidate, Lopez Portillo tended to subordinate rhetoric to realism. Officers of the American Chamber of Commerce of Mexico have had an opportunity to discuss the business and foreign investment situation with him. We are impressed by his ability to grasp essentials as well as by his refreshing understanding of the function of the private sector and of foreign private investment.

This committee has expressed interest in the possibility of changes in the approach to regulation of the economy under the new Administration in Mexico. Much depends on what is meant by "change." The fact that a man of Presiden Lopez Portillo's background and qualifications was chosen does not mean abandonment or even slackening of the reform programs undertaken during the previous administration. It is reasonable to assume, however, that there will be more careful weighing of priorities in the light of the nation's economic capacity. As he said in his inaugural address: "We must work in an organized manner to increase production and direct it toward those goods and services most needed by society and the nation, to satisfy the need for jobs and make the right to work a reality."

The basic elements of reform are written into law and must be regarded as permanent. These include the following features: a new official policy toward foreign investment providing for restrictions and controls on new and existing foreign investment; legislation that controls existing and future technology contracts; a new and complex law on inventions and trademarks; creation of a workers' housing institute financed by a 5-percent payroll tax on all business; a human settlements law that gives the federal government effective control over urban development and land use throughout the republic; creation of national commissions for regional development; reforms in child welfare, social security, the electoral system, and agriculture. New government agencies have proliferated. Without issuing any judgment about the necessity or wisdom of these reforms, it can be said that they represent an increase in government control over the private sector, both domestic and foreign, as well as an increase in the cost cost and complexity of doing business in Mexico.

These reforms, as I stated, are here to stay. Any relaxation would be seen primarily in interpretation, and there is reason for believing that some of the measures — the trademarks law, for example — may be applied with understanding and less rigor.

As far as the general economic and social situation is concerned, events do not reflect any new or alarming problems, but rather indicate an admission and recognition of long-standing problems. For many years, Mexican officials had refused to admit that the peso was overvalued. Belatedly, official programs were devised to check the rate of population growth, one of the highest in the world. Official attitudes toward the private sector were inhibiting new investment and thus making it more difficult to provide even 50 percent of the estimated 750,000 new jobs needed each year. Mexico's agrarian reform program, a cornerstone of the Revolution had distributed just about all the available land without appreciably reducing the number of applicants; vast numbers of the rural population, without productive land of their own and unable to find work in Mexico, began to emigrate illegally by the hundreds of thousands to the United States. Government subsidization of state-owned industries had long maintained an artifical price structure, and when prices were finally adjusted to conform to reality, the amount of the increases caused serious resentment and distortion of the entire economy. Depression and lack of opportunity in rural areas impelled hundreds of thousands to flock to the large metropolitan areas, where the effect has been urban blight and an almost impossible burden on municipal services.

The panorama for the new Administration would be dismal indeed if it were not for the many positive factors working to Mexico's advantage. Mexico has had the good fortunes to see its petroleum reserves expanded precisely at a moment when petroleum became a key factor in international economics. Imports of crude oil have ceased as a result of production of new oil fields in southeastern Mexico. The country has passed the 1 million-barrels-a-day mark. and export capactiy for crude oil has reached 200,000 barrels a day, with a value of more than $2.5 million a day at current international prices.

Huge new phosphate deposits have been discovered. The nation's electric power system has been doubled in the past six years to a total installed capacity of 12,243,000 kilowats. Capacity of Mexico's iron and steel industry has doubled, now reaching 10 million tons a year. Mexico's highway network has also doubled, and hitherto inaccessible agricultural areas have been opened up. A five-fold increase in the educational budget enabled the nation to build more than 100,000 new classrooms, laboratories, and workshops during the past six years — and the significance of this can be seen by taking into account that approximately 60 percent of Mexico's population is of school age.

During that same period, public credits for agriculture increased five-fold, and one million hectares were added to the irrigated areas.

Many serious problems persist in the Mexican economy, however. Mexico still depends to a great extent on imports for capital goods and some food products, which together account for a high share of the nation's trade deficit. Imports of machinery and equipment represent about 85 percent of the country's total imports, and the projection of needs for the next six years sets the figure at some $20 billion.

There are deep pockets of need in agriculture and agri-business. Mexico's system of land tenure, in which holdings are small and generally uneconomic, make it difficult for farmers to receive essential credits, either individually or cooperatively. Mexico has tremendous potential in timber, but the forestry industry has suffered from anemic investment as a consequence of misguided conservation policies. The fishing industry, with increased potential now that Mexico has proclaimed jurisdiction out to 200 nautical miles, also offers opportunities that are being neglected. Mexico's population growth rate that brings three-quarters of a million new persons into the job market each year makes the outlook bleak for reducing an already serious unemployment rate, variously estimated from 25 to 35 percent. The same factors of population growth severely tax the nation's capacity to provide adequate schooling, especially in rural areas.

Mexico's tourist industry, which up to 1975 brought in sufficient foreign exchange to balance the nation's trade deficit, has been performing poorly in the past 18 months. Expectations of improvement as a result of devaluation, which reduced dollar rates by from 30 to 40 percent, have not yet materialized. The drop in tourism, which brought in only $401 million in 1975 against $507 million in 1974, can be attributed to a combination of factors. The worldwide recession contributed. Mexico's votes at the United Nations brought on the so-called "Jewish Boycott," and the effects of this still linger. Still another factor was the negative image produced by vastly exaggerated reports of mistreatment of U.S. tourists in Mexico. And finally, the truth is that Mexico had become too expensive and was losing out to other competing areas.

BUSINESS-GOVERNMENT REATIONSHIPS

An encouraging sign for the future is a perceptible thaw in business-government relations. Especially significant was the formation in December of an "alliance for production" — an agreement entered into by the Mexican government and leaders of industry and organized labor for the purpose of carrying out an ambitious $5 billion investment plan over a period of six years. The alliance will promote growth and reduce the nation's dependence on imports. Sectors covered by the accord, which involves 140 firms in ten industrial sectos, include petrochemicals, heavy and medium capital goods industries, tourism, the automotive industry, cement, the in-bond industry and mining.

Equally encouraging is the fact that President Lopez Portillo is making close relations with business leaders a priority in his plans to solve the country's economic and political problems. His administration definitely seems to be more business-oriented characterized by closer consultation on economic policy in exchange for private sector cooperation on economic policy in exchange for private sector cooperation in the government's porgram of making more low-cost goods available to the nation's low-income groups.

In short, private business looks forward to being able to operate in a far more favorable atmosphere. This very fact will help to encourage not only domestic investment but new foreign investment and expansion of existing foreign-held installations. The American Chamber of Commerce of Mexico is often asked whether restrictive legislation and controls adopted under the previous administration have had any serious impact on the influx of new foreign investment or on the profitability of existing foreign investment. There have been negative reactions, although they are hardly quantifiable. On balance, however, foreign investors have found that the laws can be lived with and that reasonable profits can be made in spite of controls and restrictions.

This evaluation was confirmed early in 1975 with the publication of the results of a survey by the Stanford Research Institute, conducted under contract with the American Chamber of Commerce of Mexico. Covering the period 1970 to 1974, the object of the survey was to counteract mounting criticism of transnational operations by providing a firm factual base. Information compiled from 345 firms representing 41 percent of total U.S. investment in Mexico revealed many interesting facts:

Among surveyed firms, 72 percent of profits were reinvested. Almost 99 precent of workers inforeign-owned companies are Mexican. Between 1970 and 1974, surveyer firms increased their exports from $80 million to $256 million. Know-how and technology of parent companies was made available to 208 of 225 responding local firms. In 1974, net profits of all U.S.-based foreign affiliates in Mexico were 12.6 percent of stockholders equity, slightly below the world average, and 6.4 percent of sales. The total of funds transferred outside Mexico in 1974 by surveyed firms, including interest payments, dividends, patent, licensing, management, technical assistance and other fees, as well as capital repatriated, was $192 million or 4.3 percent of gross sales. Surveyed firms spent $7.1 billion during the five-year period for purchases of raw materials and supplies from Mexican sources.

In essence, the Stanford Research Institute survey concludes that, in spite of certain misgivings about economic nationalism, Mexico remains attractive to foreign investors.

OUTLOOK FOR THE FUTURE

For the moment, Mexico's ecenomic outlook is full of uncertainties, principally because of the after-shock of the recent devaluation and the fact that the new Administration has not yet had time to implement its economic and fiscal policies. Devaluation had a predictable impoct on U.S. business in Mexico, although not uniformly in all sectors. Sales in many industries — notably the automotive industry — dropped off sharply, and costs went up equally sharply. Some firms have taken steps either to reduce work forces or to dely new hirings. Others have had to restructure their debts.

There is expectation of full recovery from the effects of devaluation for the long term, probably up to two years. December consumer sales were excellent, and new bank loans in substantial amounts indicate long-range confidence in the nation's economic health. The key question is whether Mexico can hold its inflation rate down to compare reasonably close to the U.S. inflation rate. This is highly important because the United States is Mexico's principal trading partner, accounting for some 60 percent of Mexico's imports and exports. The devaluation gives Mexican products a new competitive advantage in the U.S. market, but whether or not the remedy is permanent will depend on the new Administration's success in keeping domestic production costs down.

Based on what we know and can conjecture about the new Administration's approach to the nation's economic problems, it is reasonable to assume that there will be a slowing of pace in the area of social and economic reforms and greater attention to money income and outgo.

As I pointed out earlier, however, the reforms adopted during the past administration will be implemented to whatever extent is necessary to make them permanent and functional. Mexico will continue to solicit and obtain credits from abroad, although there will probably be more concern about the impact on the domestic economy of servicing these credits. Mexico will continue to spend heavily on infrastructure and social projects and will take an active role in areas normally regarded as belonging to the private sector, although new encouragement is being given to private investment to take the initiative when investment opportunities are presented. The same factors that have traditionally made Mexico attractive to foreign investors can be expected to prevail — freedom from exchange controls, political stability, a growing domestic market, and strong government investment in infrastructure to support industrial development.

Drawbacks do exist, however, in the form of labor legislation that increases wages without reference to increase in productivity, in the form of collateral benefits that inflate normal payroll costs and inhibit expansion of the work force, and in a still undetermined policy with respect to price controls. The minimum wage was increased by 23 percent immediately after devaluation and the same rate of increase was "recommended" for all wage earners. The minimum wage was again raised an January 1 by 10 percent, somewhat lower figure than most businessmen had anticipated. Some sort of official action is indicated to prevent the perpetual pursuit of inflation by wage hikes, although Mexican government, will assuredly continue to give support to its large and powerful labor constituency.

With respect to foreign investment, most observers expect a period of refinement and clarification of the rather large body of legislation enacted during the past six years, with nothing very new or startling anticipated. Mexico will continue to be receptive to foreign capital, especially when this brings in new technology or creates new jobs. The established trend toward mixed ventures, with either Mexican private investors or the Mexican government as the majority stockholder, will continue to be encouraged.

In general, U.S. businessmen in Mexico are optimistic about prospects for the immediate and long term. They are realistic enough to recognize that change is a factor that must be taken into account in all developing countries. They believe that companies capable of responding to their host country's objectives can prosper as welcome participants in development, since in addition to capital they provide jobs, technology, exports, decentralization import substitution, skills and management training for Mexican personnel.

If Mexico takes advantage of the many positive aspects of its economy, accepting a period of belt-tightening to alleviate the present monetary crisis, the long-term outlook for business will remain favorable.

AMCHAM-MEXICO is also asked frequently about reports that Mexico is following the road of Cuba. No one familiar with the Mexican scene sees any imminent danger of social disintegration, and we sincerely trust that no one in a position of authority in the U.S. government will confuse what they see and read about Mexico's difficulties by raising the specter of communism.

As for Mexico's traditional excellent relationships with the United States, my belief is that these will not only be sustained but improved. Here, much depends on the degree to which the United States respects Mexico's desire for "economic and cultural independence."

It would be unrealistic to deny that Mexico is navigating through difficult economic straits. But it would be equally unrealistic to conclude that this reveals structural or social problems beyond Mexico's capacity to control, given time and whatever assistance from abroad that Mexico may feel obliged to solicit.

I am fully confident that Mexico's response to the present challenge will be positive and successful.

Representative LONG. It has been surprising to me, but also encouraging, while not unanimous, the degree to which all of you share agreement. I thought that there would be more divergent opinions expressed about the problems and the economic situation that exists in Mexico. I am not disappointed by this. I am really encouraged.

Congressman Hamilton, before we go into the questioning, perhaps you would like to start off with either a statement or a question.

Representative HAMILTON. Thank you, Mr. Chairman. I appreciate it and I also appreciate the testimony of these witnesses this morning.

Gentlemen, I would like to elicit your comments on the matter of economic growth.

Obviously, economic growth is the key to solving these problems, and I would like to get your opinions as to whether Mexico could attain—whether under the new government Mexico will attain—the growth rate that is necessary.

My understanding is that there has been a steady drop in the growth rate of the Mexican economy in the last 3 or 4 years.

There seems to be a difference of opinion among you concerning the best way to revive the growth rates.

If I understand your statements correctly, Mr. Reynolds is putting more emphasis on income distribution as a priority item in stimulating growth, while Mr. Wilkie and Mr. Opie seem to be thinking more in terms of capital accumulation.

I would be interested to know what direction you think the present government will be moving in order to revive the growth rate, and whether it is going to succeed?

Are you optimistic about its chances of success here?

Let's go down the line again.

Mr. Wilkie, we shall start off with you.

Mr. WILKIE. I think this is where Mr. Reynolds and I diverge somewhat. In my view the debate over income distribution in Mexico is largely irrelevant to the total process of Mexican development. It was because of income distribution that the past president of Mexico got into problems as he tried to use the enormous power of the Federal Government to recentralize the system, gaining control of those decentralized agencies in order to try to effect income redistribution even if it meant—and here he was influenced by the Club of Rome no-growth theory—an end to Mexico's economic miracle.

In other words, President Echeverria of Mexico thought Mexico had achieved enough economic growth to shift expenditures from economic to social affairs. This is where he got into trouble, much as Nixon got into trouble in the United States by trying to recentralize the system and reorganize the bureaucracy to "overcontrol" governmental power.

The next presidents of both countries—Lopez Portillo and Jimmy Carter—appear to be attempting now, however, to decontrol the systems, to eliminate excessive red tape.

If Mexico turns away from income redistribution, which I think is wise, this means that it can slow the excessive consumerism that developed under Echeverria, too much money going to consumer rather than capital needs. For the Mexican middle class, and even the poorer classes, there was to much money in circulation chasing too few goods. It doesn't matter whether the poor get poorer relatively and the rich get richer relatively; everyone felt they had absolutely more money and were better off. Now Mexicans have terrific expectations, and the problem is how to cool those expectations and to bring austerity to the Mexican system.

If the United States were to create a commission of advisers like Professor Reynolds advocates, and say let's recognize the silent integration of the economy that has gone on and develop long-term planning, I am afraid that those kinds of advisors would impose conditions on Mexico as to the kind of fiscal reforms that they feel are necessary before the United States can cooperate with Mexico.

If those kinds of fiscal reforms involve the kind of income redistribution schemes that got Mexico into trouble, then the problem is compounded for Mexico because such "reform" scares the private sector and it tends to withdraw from Mexico. Moreover, Mexico is already sinking under a legal revolution made by the Echeverria government. More laws were passed under Echeverria than at any time in Mexican history. They cannot be implemented nor can they be understood. More advice for reform is hardly needed.

For President Lopez Portillo to gain the confidence of the private sector he has to pull back on overcontrol of private investment, overcontrol of transfer to technology, overcontrol of investment, et cetera.

Representative HAMILTON. Do you think he will do that?

Mr. WILKIE. I think Lopez Portillo is pulling back from overcontrol now.

Representative HAMILTON. Mr. Opie.

Mr. OPIE. I find myself very much in agreement with Mr. Wilkie. I would like to emphasize that there really is an issue here, a question of what I call economic logic, a question of the fundamental underlying economic theory that underpins policy.

I brought in the United Kingdom because I spent 4 years trying to convince my ex-colleagues at Oxford of 30 years ago that we have grown up now, that eventually inflation breeds unemployment—more unemployment. Prime Minister Wilson was a student of mine at Oxford before World War II—he finally was convinced that inflation did breed unemployment and therefore he attacked inflation; but he should have have attacked inflation years ago in its own right, because it is an evil in its own right. It isn't only because it finally breeds more unemployment that it should be attacked.

Now, in Mexico there have been two voices, as I call them, talking to the president—the former president—and they are continuing to talk to the present President. The one voice is, frankly, the Cambridge voice, young men who have been to Cambridge and have imbibed this theory. They really believe that, as long as you are using your public expenditure on what they call productive activities, the amount doesn't matter. You can go on as far as you like. Well, that must be what I call a non sequitur, because otherwise there would be no limit in any country on the rate of growth that it could aim to achieve through government spending.

I am called in Mexico by the one voice, which is the spending voice, an old-fashioned economist because I say this theory is wrong; and yet it has been proved that the theory is wrong in Mexico by the plain fact that up to about 1974 it looked as if the rate of real growth was being maintained and then when the budget became such a big proportion of the current GDP that it was really inflationary, we saw a fall in the rate of growth.

So if, you take the average of the 3 years from 1973 to 1976, you will get something under 5 percent, and if you take the average of the preceding 5 years, you get something under 7 percent—actually 6.3 percent.

I would like to hold myself to the decimal point.

Now, the point I am making is that there are people who believe that there is somewhere a magic wand, a financial wand, that you can wave and get a bigger rate of growth than the physical resources—and in physical resources I include the human and physical resources of the country—would otherwise permit you to squeeze out of the system.

Representative HAMILTON. Do you think that Mr. Lopez Portillo would agree with what you have been saying?

Mr. OPIE. Well, here I must take issue with my friend, Mr. Wichtrich. Mr. Lopez Portillo has not had the training of an economist. He is a lawyer. He was trained in administrative law. He is an expert in administration; and it is quite obvious to professional economists in reading his inaugural speech that he does not himself fully understand the economic issues.

Representative HAMILTON. If I may, what would be the political and social consequences of your suggestion?

Now you are saying, in effect, that as a matter of economic policy the new Government should cut back on public spending.

It will have to stop these increases in minimum wage, increases it has mandated in recent years. It will have to deemphasize consumer spending and the like in order to get back on the path to economic growth.

I can see that such a political platform might have some unwelcome consequences in a nation nurtured on the philosophy of the revolution.

Mr. OPIE. Well, all I can say is that it isn't only to restore the 6- to 7-percent rate of growth, but it is to restore it with financial and general economic stability; and the people of Mexico in the last 3 years have been made consciously more unhappy by inflation than they were made consciously unhappy by the failure to accelerate the rate of change in the distribution of income or social reform or whatever you want to call it.

Representative HAMILTON. Do you think that the people of Mexico are ready to accept this approach?

Mr. OPIE. I think people are less aware of the fact that for, say, five quarters—we are talking about a timeframe, while you are getting a grip on the system again, of 2 to 4 years—we may have a negative rate of growth, than they are for inflation. Even if it is 2 years, as it was in the OECD countries to get a grip on the situation when inflation was getting out of hand, people would not be as much aware of the suffering—if they are suffering—as a result of the cutback as they are aware of the daily increases in prices under inflation, which makes every housewife into a screaming shrew, boring the hell out of her family talking about nothing but prices because she cannot make ends meet. People are creatures of habit. They budget implicitly when they have an established wage, the real purchasing power of which is not being destroyed by inflation. They budget without knowing they are budgeting. Now, change the measuring rod by having prices jumping up, and they have to budget explicitly. We know how difficult it is for corporations to adjust their accounting methods to rapidly changing inflationary situations. It is far more difficult for a housewife.

Representative LONG. I gather then that you feel the answer to Congressman Hamilton's question is that the people of Mexico are prepared to condition themselves to this economically and socially?

Mr. OPIE. Not only prepared, Mr. Chairman, but they would unconsciously follow the leadership that they were given in the direction which was going to restore stability. I am not saying there isn't a political problem, behind the scenes, for convincing the union leaders.

Representative HAMILTON. I understand. Perhaps Mr. Reynolds would like to comment.

Mr. REYNOLDS. There is an element of deja vu in these last two sets of remarks. I read the literature that preceded the Mexican revolution, that originated in the United States, when everyone was looking at a very impressive rate of growth in Mexico.

There was some inflation in the period from 1900 to 1910. Things looked pretty sound, and observers were urging the Government to pull in its horns and get itself into a more financially and fiscally conservative posture so that it would be able to handle its debt burden.

Shortly after that, in what was a surprise to most outsiders, the system became unstuck and they had one of the greatest revolutionary wars of this hemisphere, second only to our Civil War, which also represented longstanding neglect of some basic social and distributional inequalities.

Now, the statistics in my paper are fairly explicit, and they suggest if the per capita income of Mexico today is about $1,000, the poorest 6 million people receive only about $400 a year.

Four hundred dollars a year for 6 million people.

The next 24 million, $550; the following 24 million, $925; and the upper 6 million, $3,700. Seven times the difference between the lowest 6 million and the upper 6 million and there is a 7 to 10 times difference between the average in Mexico and the average in the United States.

It is totally unrealistic for the United States to expect over the next 20 years, with growing education, social awareness, and discussion of these issues among the third world's population that is within Mexico, that the population will sit still and permit this to continue.

Representative LONG. Mr. Wichtrich.

Mr. WICHTRICH. I would like to answer your question within the social and economic and political scene which President Portillo will have as a background for his economic development.

It seems to me he is really in a dilemma because, though many Mexicans still remember the revolution of 1910, 1917, the ultimate goal in Mexico of most any politician is what they call social peace and political stability.

On the one hand he has to call on the Mexican private sector directly for private foreign investment to invest as much as possible, create as many jobs as possible, and industrialize natural resources, export as much as possible to generate foreign exchange and to attract tourism on the one hand.

On the other hand, to attract this foreign investment, he has to develop infrastructure, generate more electricity, create more jobs, create more roads, create export development, export facilities, railroad lines, airports, et cetera.

Then, on the other hand, he has social pressures that he has to satisfy. Somehow, if the Mexican private sector doesn't pick up the challenges and create jobs, the government is going to invest and create jobs.

I think he has to steer a course somewhere in the middle where he can satisfy all of those components. Certainly, in the short range he has to control inflation.

There is no question about it because of the many implications of inflation.

The rural areas have to be developed. The land invasion in Sinaloa is now being settled. It is quiet and production continues.

He has to feed his own people. He has to create jobs. This has to be done with a harmonious approach by all sectors public and private, the campsino and the worker, the priorities and the development of his oil reserves, because if they can industrialize their petroleum, export petroleum chemicals, gasoline, be self-sufficient in fertilizers, that means he will have to import less.

I think with all these problems, he has to be very careful what he does. He may have to sacrifice good economic sense to satisfy social pressures.

Representative HAMILTON. Do you think he will lean toward the kind of economic policy that Mr. Wilkie and Mr. Opie have emphasized?

Mr. WICHTRICH. I think he will, as much as he can and I would say the next 6 months are going to be the anxious months to see how the private sector is going to respond.

There is no question he will have to do some foreign borrowing.

Representative LONG. Mr. Reynolds, I know you want to comment on this. Let me ask you to comment in the structure of two additional factors when you do this. Given the age structure of the Mexican population, and given the growth of the population, is there any realistic way in which this can be done, meeting these pressures on both sides that Mr. Wichtrich outlined?

Mr. REYNOLDS. Yes, I think so. I think there was a false dichtomoy established in some of the previous remarks that would suggest that the only way that the social objectives of the government could be achieved would be to proceed along inflationary expenditure lines by the public sector.

As I understand it, that is not the intention of many members of the team in either the outgoing or the incoming administration.

What they are trying to do is to create an incentive system to facilitate the expansion of private investment in the directions which will favor a broadened social participation in employment, income, and consumption.

This would mean then that the consumption bill out of income could remain approximately what it is, but that the distribution of it could move more in the direction of the working class.

The United States has had in its history experience in very sharp changes in the distribution of consumption, particularly before and after World War II.

Representative LONG. You feel that is true in spite of the age structure of the society in Mexico at the present time, and also the growth of the population in Mexico?

Mr. REYNOLDS. Well, I think that makes it more difficult.

That means, first of all, there is a declining labor participation ratio so that the number—what the Chinese call the hand-mouth ratio—is declining.

This means fewer workers available to support the number of people that have to be fed.

What I would say is that this increases the pressure to raise the real incomes of those poor workers who have to support the growing number of dependents.

It would increase rather than decrease the need for the policy the government wishes to pursue. As far as its ability to execute that policy, the more the labor force in general is growing because of demographic—past demographic increases, the more the pressure on job creation.

I feel very strongly that this, say, Cambridge versus neoclassical model of employment is a false dichotomy, that it is possible to shift the composition of final demand without inflationary pressures, but it does mean a reduction in the consumption of the upper income groups.

That is where the austerity takes the bite.

Mr. WILKIE. But it is the middle class that suffers from income distribution schemes.

Representative LONG. Mr. Wilkie, would you comment on that?

Mr. WILKIE. It is the middle class in Mexico that feels it is under attack because the problem with these income redistribution schemes is that they don't always get to the rich which they should hit. Rather, they hit the middle class which feels that it has been taxed out of the automobile, the expense accounts, et cetera.

From another point of view, I question Mr. Reynold's data.

I would say that the age structure in Mexico in percentage terms is the same as it was in 1910. When we talk about these figures, I don't see the shift that Professor Reynolds was talking about. And when I look at his income distribution figures, I question them because what we are dealing with in Mexico is an underreporting of everybody's income—nobody tells anybody what they really earn.

In short, there is a level of affluence in Mexico that is just not revealed in Professor Reynolds' figures. It is the weak income distribution data, however, which influenced Echeverria, who believed that the people would not tolerate a so-called seven-time differential between the rich and the poor. In my view that differential may be a myth in itself. If it was not seven times, then the government was off on a wild goose chase, and I think that is where it got itself into trouble.

Yet to say that Lopez Portillo is going to pull back and try to stabilize the system is not to say that he will not try to appear to be "revolutionary."

Every president of Mexico must establish his credentials to maintain the permanent revolution. If Cardenas expropriated oil, Lopez Mateos in the early 1960's nationalized the electricity, and Echeverria tried to distribute the good lands of Northwestern Mexico, perhaps because he distributed less lands than any of his immediate previous presidents. Also, Echeverria tried to make his name with a profit-sharing law, as did Lopez Mateos.

What will Popez Portillo do? How will he try to make his name as a memorable member of the "revolutionary family."

In another vein, I guess what troubles me about some of our presentation here is that it sounds like we are beginning to tell Mexico how it should act or how it should resolve its problems. We should not do this. I think that the point of this meeting perhaps is not to determine what we can tell Mexico or meddle in Mexico's internal policy, but to understand that policy and to try to understand what the United States could do by itself regardless of what Mexico does. We should not seek long-term arrangements whereby the United States might get some kind of quid pro quo as in a case which would force Mexico into fiscal reforms in return for favorable trade advantages.

We should recognize the economic integration that has gone on and then proceed to do something about it? While Professor Reynolds' idea of a commission might be a good idea in the long run, in the meantime, the United States can do something immediately.

If the Congress could recognize this economic integration, and recognize that it is working very imperfertly, then it could immediately begin to act.

Representative LONG. Could I explore that? I think you are making a good point, Mr. Wilkie. Maybe each of you have an opinion on it.

The last time I returned from Mexico, they didn't ask me any more than whether or not I was an American citizen. Nothing else. They didn't, I don't think, know that I was a Member of Congress and consequently was not related to that which might sometimes happen, unfortunately.

They didn't ask me what I was bringing back, whether I had \$500 worth of goods, \$300 worth of goods, or an allowable or unallowable amount.

I wonder if the degree of economic integration is a result of labor integration in the two systems, either by shipping of goods across and then shipping them back after they have been processed or by the illegal aliens that are a part of the American labor force.

To what degree have we achieved economic integration by what one of you suggested was the removal of any limitations on what American tourists might bring back duty-free?

Does anyone have a view on that?

Mr. WICHTRICH. I think the Mexican Government, their policies, certainly is to attract tourists to Mexico. They do everything possible to do this; whereas, on the other hand, there are some people that serve the tourist industry that don't cooperate with this policy.

This is where you have some of the problem. It seems to me that within the generalized system of preference there are many items in that system that could be brought back by tourists duty-free.

I don't know what the mechanism is that allows this. It seems to me that you could select those items in the GSP and bring this to the attention of tourists, because I believe the \$100 or \$200 limit as to what U.S. tourists can return to the United States oftentimes is not related to his generalized system of preference items.

This means that perhaps a tourist could bring back \$1,000 worth of something duty-free.

Mr. WILKIE. Art objects. You bring back art objects and books——

Mr. WICHTRICH. I am not familiar with it—I think it is over 1,000 items on the GSP that can come back duty-free.

You can say, OK, these are GSP items so they are not calculated in the \$200 that I can bring back to the United States, if it is \$200.

I think recently it was increased to \$200. So, this distinction between those items coming into the United States duty-free because they are included on the GSP and those that are not included as GSP items could be limited to a certain amount.

I think the economic integration needed between Mexico and the United States, is based on long-range special arrangements that could be talked about, worked on so that on both sides, both of our economies can mutually profit from this type of an agreement.

Representative LONG. Mr. Reynolds.

Mr. REYNOLDS. I would certainly agree with that point. That's why I propose that a commission be standing on a permanent basis so that instead of proceeding in an ad hoc way as we have in the past on specific commodities, on certain matters on the border, territorial problems, migration, we would be able to work out long-term relationships and develop the legal framework necessary to cause them to be implemented on a reasonable basis with a certain degree of security for the individuals involved.

Mr. WILKIE. What if we just opened the border and let U.S. tourists bring back from Mexico whatever they wanted with no taxable maximum? What if we opened the border to Mexican imports without restrictions? What if we treated Mexico as if it were part of the United States economically, regardless of what Mexico does?

What if we did that?

Representative LONG. Mr. Wichtrich.

What would be the economic repercussions of that? We probably better understand the social repercussions than the economic.

Mr. WICHTRICH. Well, I think you have to be realistic. You have tomato growers in Florida and in California. They are going to oppose the free importation of tomatoes. You have strawberry growers. They are going to oppose the free importation of strawberries.

Representative LONG. Would we not, in looking at our own economic problems, ask for something in return for that if we did what Mr. Wilkie is suggesting? I am not saying he is advocating it.

Mr. WILKIE. I am advocating it.

Representative LONG. Should we ask for something in return, perhaps the nondiscriminatory treatment that American businesses had in Mexico; what would be your view?

Mr. WICHTRICH. I think you have to be realistic. I think we would. There is no question about it. I do think with serious study you can find areas in which both sides, both economies, can mutually benefit from these types of agreements.

As I mentioned before, there are seasons in the United States when fresh vegetables are scarce and prices are up. If you were to work an agreement over a long-range basis that during certain months of the year you would export this commodity into the United States, and then the quid pro quo could say okay, Mexico, we can produce corn up here a lot cheaper than you can down there. We will ship corn to you, or we will ship powdered milk, or whatever it is, but work it out in that way so that the U.S. consumer is the one that benefits by lower prices rather than pay exorbitant prices during certain times of the year.

I think we are fortunate in that Mexico has a growing season at the time when we don't up here.

Representative LONG. Perhaps a thing that we could get moving rather rapidly is that all of you agree on is that insofar as economic integration has taken place between the United States and Mexico, the statistics do not reflect this. Would we be much better off if we did have the statistics on this so we could know the degree to which it has occurred?

Mr. WILKIE. We are talking about reality. But what is reality is too often considered only an economic reality. In the economic reality it turns out to be the U.S. strawberry growers versus the U.S. strawberry growers in Mexico. I argue that the United States has so economically penetrated the Mexican market that by opening the U.S. border we are going to be benefitting as many Americans in Mexico as in the United States.

We also have to look at the social side of reality. Unless Mexico is healthy economically and socially, its population migrates out of Mexico and into the United States to become a burden, socially and politically, on the U.S. welfare, unemployment, and minimum wage systems. If the United States did open the border, I think Mexico would be able to develop economically at such a pace that Mexico's work force would stay in Mexico.

Representative LONG. You think the pressures are such that we are either going to have to open it or build a fence?

Mr. WILKIE. I am afraid there is no other way. I think all the diplomatic discussions about what to do are largely irrelevant because it is not feasible to close the border. Only by making Mexico so economically sound that people want to stay there—and return—will the problems be solved.

By talking about economic realities, too often we ignore the social realities. Since diplomats cannot solve social problems, we have to think in totally new terms.

Representative LONG. Mr. Opie.

Mr. OPIE. I agree with what Mr. Wilkie has said. As I said, I am not a visionary. I don't expect very great changes to occur in my lifetime. I think it is very fitting that the Members of the Congress, as well as the executive branch, should be aware of the fact that there is de facto a very large degree of integration. It is desirable in the interests of both countries that everything should be done to encourage it.

Representative LONG. Mr. Opie, what sense of confidence among businessmen do you find insofar as the new administration in Mexico is concerned?

Mr. OPIE. Probably the Mexican private sector is more confident that the country is going to get on the road to stability and prosperity than is the foreign private sector.

Representative LONG. How do you feel about that, Mr. Wichtrich? The Chamber of Commerce people—are they generally optimistic or adopting a wait-and-seeing attitude?

Mr. WICHTRICH. I would say right now they are cautiously optimistic because the government is only 6 weeks old. The fact that the minimum wage has been kept down certainly increases that optimism.

To what extent flight capital that had left Mexico will begin to return, nobody really knows. The degree of confidence will be manifested in the amount of capital that returns.

I can say this: Many companies are increasing their plans to expand. They have two options: Close down and pull out, which we certainly don't want; or, to go ahead with their plans.

That's what they are doing. I would say the term is "cautious optimism." In 18 months, 2 years, I think we will see Mexico taking off again.

I think that the devaluation of the peso, and many of the comments in the press here, has created the impression that the Mexican Government is not stable.

I would say this is absolutely untrue. The Mexican Government is stable. My advice to the Congress would be an objective and understanding attitude toward Mexico's problems.

I don't think here we can come up with any ideas that are going to solve the problems, but I do think that constant dialog and with this change of attitude, that a great deal of progress can be made.

Representative LONG. Where do you stand on this, Mr. Reynolds? The surgeon's knife presented by Mr. Wilkie, or perhaps the therapy presented by Mr. Wichtrich, both of which have their places.

What do you feel is the position that the United States ought to take—I think because of the population changes as much as anything else—on the growing problems in the relationship between the United States and Mexico?

Mr. REYNOLDS. I feel that the United States would be well advised to reconsider the possibility of regarding the entire North American Continent as an economic region in which it is one important participant and in which it can play an increasingly relative role rather than absolute or dominant role.

In that respect, it would have a special relationship with both Canada and Mexico made explicit, but the quid pro quo would be greater opportunity for both of those countries to actively engage in the determination of policies that will be mutually beneficial.

I think this is in the interests of the growing multipolar world which we are going to be living in in the next generation.

The world will see in the third world great powers rise, and Mexico is certainly going to be one of them.

In the year 2000, Mexico will have half of our present population in the United States, over 120 million people.

It is going to be an enormous market. It is going to be an enormous force for stability or instability, depending upon how we react at this point, when it is still possible to make a choice.

Great ships move from one port to the other by small changes in the rudder. At this time, I don't call for drastic changes in the rudder. I would call for a slight change in the rudder looking toward a somewhat different destiny than perhaps we have been looking at during the period of so-called low profile Latin American diplomacy.

One thing is low profile diplomacy with meddling behind the scenes; another approach is to frankly admit that we are only one in a community of nations and work as gentlemen together in a community of equals to try to resolve our problems in a mutual way.

This is where I think the members of the panel come together.

Mr. WILKIE. No, that is too diplomatic.

Representative LONG. Mr. Opie, what is your view on the general position of the United States, looking at it from where you sit?

Mr. OPIE. It is very difficult for me, Mr. Chairman, to speak in those terms, because you see there is an agreement with the International Monetary Fund, which has to do with Mexico getting out of its present mess—and it is frankly in a mess. People who think as I do in Mexico, some in the Government, know that it is in a very difficult situation, which can only be called a mess.

It is of the utmost importance that Mexico should get out of that mess. We have heard on this panel today an allusion to the possibility of its going the way of Brazil, of adopting some of its measures, minidevaluations, and so on. What Mexico should do is avoid getting into the position of Brazil. It is very much better off if it doesn't have to use the economic gadgetry that you have to use when you are in the position of Brazil, in order to stay in that position and not to fall into financial chaos.

What Mexico has done in losing over the years its financial stability—in the very short term of 3 years when it could have held the line if the decision had been different in the early part of 1973—is to put itself in the position that, instead of being the admiration of the whole world, not only among the developing countries but also among the developed countries, for financial and economic stability, it is now in danger of going toward the position of Brazil; and beyond that lies the yawning chasm of financial chaos. This would mean social chaos, far more suffering than if it gets back to stability.

Forgive me, Mr. Chairman, if instead of thinking about the dangers of my suggesting what the Mexican Government ought to do, I am thinking about the kind of country that will be our neighbor if it does one thing and if it does another thing. It is not too late for Mexico to get a grip on things. I was told by a minister 2 weeks ago, one of the new ministers, that they have promised the International Monetary Fund that they will try to avoid going the way of Brazil. If that spirit could be backed and encouraged, I would be very hopeful of reestablishing stability.

Representative LONG. You, of course, Mr. Opie, are very familiar with the fact that last fall, a consortium of banks loaned Mexico some $800 million.

Mr. OPIE. Yes. That was the Bank of America loan in October.

Representative LONG. Would you consider this loan was a sound loan, a good loan for the banks, particularly in view of Mexico's current enormous debt and your own feelings on potential financial problems for Mexico.

Mr. OPIE. I don't know how bankers think, but if I had been one of the bankers I would have made the loan if I could make it on the premise that the Mexican Government is determined to restore financial stability. If they have to restructure the foreign debt in the future because they fall into complete financial chaos, I wouldn't like to be an international banker waiting for my money.

Representative LONG. An additional factor that would be involved there, of course, is that to some extent they were pressured into it because of the money they already had loaned into Mexico; were they not?

Mr. OPIE. Yes. It is always good to be owing your banker $2 or $3 million instead of $2,000 or $3,000.

Mr. WILKIE. I would like to agree with Mr. Opie in the sense of making the comparison between Mexico and England. Both Mexico and England created welfare states. England may be better off because it doesn't have a revolutionary imperative to maintain with each regime having to expand state power. In fact, the IMF has increasingly got England to cut back in public expenditures. Nobody can get Mexico to cut back because of the revolutionary imperative—cutbacks would threaten the one-party system and destabilize the system. And in another sense there is a comparison: England is waiting for the North Sea oil to come in; and Mexico is now waiting to move its oil exports up from 100,000 barrels to 1 million barrels a day, as it projects for 1980. Both countries, then, say they will soon have the money to keep their welfare states going. But, in the meantime, both have a capital shortage. And if they understake the fiscal reforms, which I agree are needed, they scare away domestic and foreign private capital, then creating more inflation and more problems.

To return to U.S.-Mexican relations, we must understand what is going on in Mexico and also understand that the U.S. crisis of undocumented workers—or illegal workers—is not going to be solved with any more of the old ideas that Professor Reynolds proposes—such as long-term commissions that will work out a quid pro quo where Mexico must give something in order to get something from the United States.

We cannot wait for long-term studies, because we are in an emergency situation now. I would hate to see this committee go away with the idea that we accept the present drift or simply set up a committee to gather statistics.

I think the United States has got to recognize that Mexico must be helped to solve its own problems, regardless of what U.S. labor or agricultural industry says about economic realism militating against helping Mexico, unless we take into account the U.S. own social realism, Mexico will not get the capital it needs for the kind of radical surgery that I am proposing—that is making Mexico healthy enough to give all of its people jobs.

Representative LONG. As I said prior to the beginning of the hearings, nobody has really done anything on the statistical problem. It is of great concern to me. I don't mean to in any way suggest that we weren't taking a look at the bigger picture.

I do believe that any time that we can get additional information to analyze the problems better we should do so. Particularly in an instance like this where something has not been recognized before.

Mr. WILKIE. Right, but there may not be any data that can be gathered. For example, the Bank of Mexico has been trying to estimate or figure out how to gather data on border transactions for a long time. They just simply have not been able to develop any methodology, either using U.S. Department of Commerce figures or their own figures. The problem the fact that there is so much activity going on in economically integrated border area that it is as difficult to measure as trying to determine the inter-city transactions in New York City about what is going on.

Representative LONG. Yes. I well recognize that it is extremely difficult when you have a border that long with as few control points.

Let me go back to the question of the increasing production and export of crude oil from Mexico. Is there any danger that they have already spent that additional money before they get it?

Mr. OPIE. No. I do think it is not quite as bad as that, although the total public sector foreign indebtedness is now $20 billion. The private sector indebtedness, which people like to add to that to show how bad the situation is, is between $7 and $8 billion, according to the international banking estimates.

Of that $20 billion public sector debt, well over $4.5 billion, approaching $5 billion, is unfunded, borrowed for less than one year.

So, it is very expensive short-term money. It has grown, by the way, in the 5 years, from, oh, about $800 million to $4.5 billion. Don't hold me exactly to that figure.

The prospects for oil exports, as I said in my written statement, up to 1982, according to the latest estimate by Pemex, the government oil monopoly runs something like this: Nearly $900 million in 1977 and rising fairly regularly to $4 billion gross earnings from the export of crude, and possibly nearer to $5 billion in 1982, if they carry out their intention of adding refined products, including the very refined petrochemical products, to their exports.

Now, that puts it in perspective. In 4 years they could reduce their foreign indebtedness very considerably if they don't incur more indebtedness. This is where the rub comes.

Representative LONG. Mr. Reynolds and Mr. Wilkie particularly. At the risk of being accused of looking at the tail rather than the elephant, which is a risk I am willing to run because of the importance of getting at least some indication of the degree to which we now have an integrated economy, I think it is essential to explore the present extent and future possibilities of integration.

Do either of you have any ideas as to how this subcommittee might secure additional information? Maybe you could make some constructive suggestions. If not today, perhaps all four of you could give this matter some thought and give us something in writing.

I think that if we look at it realistically, economic developments of this type come because interests become vested. To some degree, the interests in this integration are becoming vested. The ability to identify where this has happened, and in turn move from there, assuming this were a direction we decided to move in, would be very valuable.

I am really looking for a point from which we can move, recognizing that as a political matter your suggestion for a surgeon's knife is not politically feasible for the United States at the present time, nor perhaps for Mexico.

Mr. WILKIE. I wonder how the American Chamber of Commerce in Mexico is defending American interests. Or does it?

For example, if you have read the book by Robert Freeman Smith on the "United States and Cuba: Business and Diplomacy, 1917 to 1959," the implications are that the foreign investors in Cuba were able to protect themselves and fight against their American business counterparts in the United States by lobbying in the United States. In protecting themselves they were also indirectly protecting Cuba.

I wonder if the American Chamber of Commerce is able to argue against some of the growers in the United States, for example, who would close the border to certain types of crops coming into the United States or else require high tariffs?

If we understand that there is a common U.S. interest on both sides of the border, then the opening of the border may not be the political problem that it might appear to be.

Mr. WICHTRICH. I am not sure I understand your question.

Would you——

Mr. WILKIE. Is the American Chamber of Commerce in Mexico organized to lobby for protection of U.S. investment in Mexico as well as to lobby in the United States for lower tariffs and exports to the United States?

Mr. WICHTRICH. Well, I think first you must understand that the American Chamber of Commerce in Mexico is a foreign chamber in Mexico and we are not in a position to tell the Mexican Government what to do.

We do this and at this meeting I think we are very honored to be here to express our opinions so that our opinion can be handled through the normal channels.

I recognize, of course, that Mexico is a sovereign nation and Americans and certainly American corporations cannot interfere in the internal politics of that country, nor do we want to.

I think we have to recognize that. I think this is very important that people understand that.

Although we do dialog with the Mexican Government, we do talk to them, we do try to place before them our position, certainly we are not going to tell them what they should do or not do.

They have their problems. As I mentioned before, it is a sovereign country. We try to show them where perhaps they are making a mistake and try to prove, you know, how they should adopt certain attitudes, perhaps, foreign investment would be more welcome, this sort of thing.

Mr. WILKIE. Do you do that for the United States as well?

Mr. WICHTRICH. We do this in the United States quite openly, but we don't in Mexico.

I think our position is that we try to create a favorable international investment climate and advise foreign investors as to what they should best do and how they should behave.

One of our latest attempts is to demonstrate to the U.S. corporations that they should know the plan of government, they should become involved in helping the Mexican Government accomplish that plan.

They should become socially responsible in that country. A particular case was brought to me just before I came up here; I saw the program of the Coca Cola Export Co. Most people think that all they do is sell soft drinks.

I was very much surprised to find out they are involved in the export of coffee, which is very important. They are developing a new soft drink which is going to be very nutrative, have a high protein content, vitamins, so forth. This is very important.

Also, they have export facilities. When the Mexican Government saw that Coca Cola was interested in exporting, solving the nutritional problem, especially within the youth group, and also involved in exporting other commodities to the United States, naturally they became more friendly toward this corporation.

When you have this mutuality of interests between the U.S. transnationals and the Mexican Government, you are bound to get friendly treatment and friendly understanding.

I think this is something that U.S. transnationals should do to recognize their corporate responsibility, recognize they must pay social corporate rent to work in these countries, to earn profit in these countries, and they should assume their social responsibilities in these areas.

I think there are many things that can be done that we are doing. Certainly, the new tax law in the United States may hurt the transnational corporations as far as remission of profits to the United States this should be corrected.

Section 911, which eliminated part of your tax deductibility, is going to hurt a lot of individuals who are overseas.

I think those are detrimental to foreign investors. I think we have to make it as easy as possible for U.S. corporations to invest in Mexico and other places overseas if we recognize as a truth that through U.S. direct private foreign investment you do get an inflow of capital, technology, creation of jobs, exports to the United States, imports from the United States, and certainly enhance the U.S. balance of payments.

Representative LONG. Mr. Reynolds.

Mr. REYNOLDS. Thank you, Mr. Chairman.

There really are two levels at which I would like to address your earlier question.

The first is at the level of philosophy of government. The implications of the convening of these hearings and the request that you have made for means to improve our knowledge of the structure of economic relationships between the United States and Mexico is that it is in the domain of the Congress to look at broad political economic links between the United States and other countries which have customarily fallen within the domain of the executive branch of government, the State Department, the Department of Commerce, and other branches.

I believe that this makes eminently good sense. I think that one reason why I think this is sensible is that the problems are so complex and they cut so far across the fabric of American society that it is appropriate for the Congress to delegate to the executive branch all of the background work essential for the reaching of conclusions that will govern the way in which our lives are lived in the future.

Now, a parallel to this approach is perhaps the Congressional Budget Committee, which the Congress just recently established to prepare its own budget in parallel to that of the executive branch as a basis for a more intelligent appraisal of evaluation of the executive branch programs and policies.

It would seem to me to make sense, and maybe not only in one committee to look at international political relationships as background for effective evaluation of policies in the executive branch.

In short, I am very pleased and impressed with the objectives of this committee and happy to participate in this and any further activities.

The second level, then, consistent with my position on the political philosophy of the committee's conception is to suggest that a white paper or papers be considered by the committee or whatever appropriate organization the committee wishes to associate itself with to look into the structure of relations between the Mexican and American economy and its future prospects with an eye to specific policy recommendations.

I don't think that it would be a bad idea for the executive branch to be brought in on this type of an activity, at least on an advisory basis with the maximum possible coordination of their respective functions, so that it won't seem to be a direct challenge to the policy planning operations within the State Department, for example, who are supposed to be doing this type of work, but that the committee might reasonably commission such a study.

Representative LONG. I think that is worthy of, and should get, serious consideration.

I assure you that we shall.

The Joint Economic Committee has, since it was established in 1946, been perhaps the only committee of Congress that has really done studies of this type, evaluating both the economic and political relationships between the United States and other countries. I think the degree to which the two have become one, a two-sided coin, but all a part of the same coin, has accentuated the need for these studies.

I am not sure that the Congress as a whole has been carrying out its full responsibilities in this. That is one of the reasons we decided to move in this area.

Mr. REYNOLDS. Well, wanted to particularly stress the economic dimension, which I think is where the Congress can provide additional resources and perhaps help the Department of State, the Commerce Department, and other departments to lay the groundwork for the kind of policy-related results that we are seeking.

Representative LONG. Recognizing this, I suggested to President-elect Carter that he give consideration to naming someone with an economic background as his Secretary of State and to building a strong economic staff.

I am well pleased that he has done so; it is a recognition of the problems. The President informed me he did intend to build a strong economic team within the Department of State. This is a very encouraging sign to me.

Mr. Wilkie.

Mr. WILKIE. You asked specifically where we might go.

I would endorse Professor Reynolds' motion, but also caution that it should not be limited to the border issues.

There have been a number of bilateral commissions over the years, most without much result. They have always stressed the border and trade, and I do not know of any really good studies that have come out of those narrowly focused studies.

I think what we need is an analysis of conflicting national interests in the United States and in Mexico and an inventory of U.S. laws—that is, import restriction and limits on tax-free tourist expenditures—that harm Mexico.

It is not simply Mexico. It is not simply the impact of either country on each other; but the problems each country faces as they begin to work out these problems.

Representative LONG. I think one of the things that has to be understood is that in discussing our economic relations with Mexico we have to, to some extent, be critical of what's happened from that end as well as this end.

It doesn't really boil down to where we are trying to tell Mexico what they ought to do in this regard.

I think a certain amount of discussion of that type is necessary for us to be able to discuss the problem intelligently.

I hope that it will be taken by our friends to the South, our discussion here today, that it was in that context that we discussed it.

We are not in any way undertaking to try to tell them how to conduct their affairs.

Mr. WICHTRICH. I would caution that any work that is to be done should be done very rapidly.

I think we have a unique opportunity at this moment, because President-elect Carter taking office when he will be taking office, President Lopez Portillo taking office on the first of December, there seems to be a great desire on the part of the Mexican Government, and the Mexican people, to improve already existing relations between Mexico and the United States.

I think the moment is now ripe to initiate any discussion of this type.

Representative LONG. I think that is right and in my opening statement I made note of that fact. It is a type of opportunity that doesn't come along very often where you have the coinciding of new administrations and can deal with the economic problems of both countries.

One thing that surprised me was the similarity of the problems we have in the United States at the present time with those they have in Mexico. Perhaps they are not so severe here, but in many ways they are comparable and often subject to comparable types of solutions.

I do want to thank each of our witnesses for being present today. Certainly, your statements have contributed significantly. They have been most interesting and informative.

We would like to invite you to submit any additional comments in writing, particularly along the lines of the last question I asked about the direction in which we might go. This s our first day of hearings, and we are looking for some guidance.

It is clear from our discussion today that Mexican developments are a big topic with many important implications for the United States.

The next hearing, as I mentioned, is scheduled for next Monday. We will at that time move into, as Mr. Wilkie described it, a more limited perspective. We will look at the impact on the U.S. border regions, and also explore how economic integration has worked in those particular areas.

The subcommittee will stand in recess until January 24.

[Whereupon, at 12:44 p.m., the subcommittee recessed, to reconvene at 10 a.m., Monday, January 24, 1977.]

RECENT DEVELOPMENTS IN MEXICO AND THEIR ECONOMIC IMPLICATIONS FOR THE UNITED STATES

MONDAY, JANUARY 24, 1977

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTER-AMERICAN
ECONOMIC RELATIONSHIPS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:04 a.m., in room 345, Cannon House Office Building, Hon. Gillis W. Long (chairman of the subcommittee) presiding.

Present: Representatives Long and Brown of Ohio; and Senator Bentsen.

Also present: Kent H. Hughes, Sarah Jackson, and John R. Karlik, professional staff members; Michael J. Runde, administrative assistant; and George D. Krumbhaar, Jr., and Mark R. Policinski, minority professional staff members.

OPENING STATEMENT OF REPRESENTATIVE LONG, CHAIRMAN

Representative LONG. The subcommittee will come to order.

Today, the subcommittee is continuing its hearings on recent development in Mexico and their implications for the United States.

We are going to consider the special impact of these developments on the southwestern part of the United States, that part of it which borders on Mexico. We also want to consider the developments in agricultural areas of northern Mexico.

It is obvious that the Mexican border region of the United States is very sensitive to developments across the border; there is a large two-way traffic in tourism upon which many of our border communities have come to depend to a very substantial degree. Most of our trade with Mexico moves across a land frontier, which is a little different from our relationship with most other countries.

Also, now is the time of year when Mexican winter vegetables are beginning to come to the American market, and it is also the season when many Americans—and I think with snow in the forecast for today, this is particularly appropriate—are thinking about trying to escape the frigid weather we are having in the United States and to enjoy some Mexican sunshine.

The long tradition that we have had of a relatively open border between our two countries has over time led to a substantial movement of population across the border and the establishment of a sizable Mexican-American community in the United States. While this community has spread far beyond the border region, it is still more concentrated there than it is elsewhere. Likewise, there are many United States citizens who live in Mexico on a full-time basis. I think both countries have been enriched by this immigration though I also realize continuing migration pressure poses some serious problems.

These problems seem likely to be aggravated by adverse economic conditions in Mexico; and this is only one of the many factors we want to take into account when we consider recent developments in that country. Congress must deal with the Mexican-American relations on many other levels as well. As a couple of other examples, our duty exemptions for returning tourists are very important to Mexico; and as well as our trade regulations.

With new administrations in both of the countries, that of President Lopez Portillo in Mexico and President Jimmy Carter here in Washington, we have an excellent opportunity to see if new steps can be taken to solve old problems as well as the new ones that may have arisen. We also have an excellent opportunity to analyze in some depth new problem areas and which cannot be treated with old solutions.

While the focus of today's hearing is on economic relationships and their implications, we all well know that we can't fully separate the economy from broader political and social developments. I am sure that our witnesses are going to take all these factors into account. I have read all of the statements you were good enough to submit. They do provide this broader consideration.

I would like to introduce our distinguished witnesses, beginning on my left with Professor Jimmy S. Hillman, head of the Department of Agricultural Economics at the University of Arizona, who will tell us about the problems and prospects of Mexican agriculture.

Calvin P. Blair, who is a professor of resources and international business, Department of Marketing Administration, at the University of Texas at Austin, and is a specialist in Mexican and Latin American business affairs.

We are particularly happy to have Ms. Graciela Olivarez, here today. She formerly was a consultant for the National Urban Coalition on Mexican-American Affairs, and now heads the New Mexico State Planning Office.

Next is the Honorable Raul H. Castro, Governor of the State of Arizona, who will tell us about the situation in his State. The Governor, by the way, was born in Mexico, and has been a lawyer and a judge in Arizona as well as the distinguished Ambassador to El Salvador and Bolivia.

Our fifth witness is the distinguished Senator from Texas, the Honorable Lloyd Bentsen, a Member of this subcommittee, in addition to being a Chairman of the Subcommittee on Economic Growth of the Joint Economic Committee.

Our format today will be for each witness to make a brief opening statement so we can have a basis for ample dialogue. I hope each of you can keep your statements to around 10 to 15 minutes.

Your prepared statements, with the appendices that many of you have attached thereto, will without objection be made a part of the record of this hearing.

Perhaps, Senator Bentsen, you would like to begin. We are, as I said, very pleased to have you.

Opening Statement of Senator Bentsen

Senator Bentsen. Thank you, Mr. Chairman.

First let me congratulate you and the Members of this subcommittee on their deep interest in this subject. I think for too long a time not enough attention has been paid to the political and economic impact of decisions made in Mexico on the United States, particularly the 2,000 miles of border we share between our nations.

For some time, we have had a secretary of state who too often has looked at this world as though it were a triangle with an overemphasis on China and Russia, often excluding the rest of the world, particularly our allies to the South.

We need a good neighbor policy—which we haven't really had for many, many years. We have ended up with a set of near-adversary relations. Mr. Chairman, one of the highest priorities of the new administrations in each capital must be to better our relations between the two nations.

As one who was born and reared on that border, I think I have an awareness of some of the problems that have developed there because of the kinds of decisions that we have seen forthcoming on both sides of that border in the last few years.

I believe that our relationship has deteriorated to one of the lowest points in decades.

Certain actions by the Mexican Government in recent years, I think, have injected a note of discord and acrimony into the relationship.

The inauguration last month of President Jose Lopez Portillo augurs well for an improved psychological climate but real, concrete problems exist that no longer can be neglected.

Unless the new administrations in both capitals eschew the rhetoric of the past and take the tough steps necessary to meet their bilateral problems head on, the United States and Mexico will move into a new era of tension and hostility.

United States-Mexico border problems are, Mr. Chairman, a facet of the broader range of issues our countries must urgently address.

I would like to outline a few of the border issues which most concern my constituents and myself.

The most recent difficulty along the border has arisen out of Mexico's faltering peso and the devaluation which has stimulated serious economic depression, resulting in the loss of thousands of jobs and hundreds of millions of dollars in exports and retail sales.

Official figures show retail sales from Brownsville and Matamoros to Chula Vista and Tijuana have droped 70 to 75 percent, according to the area.

Dozens of merchants in border communities in both Mexico and the United States have either gone broke or have gone deeply into debt. Unemployment in most of these areas is expected to rise 20 to 25 percent unless remedies are found.

Already on our side of the border in the area where I was born and reared we find the lowest per capita income in the United States—not in Mississippi, but in South Texas—so it adds to the problems that we are already experiencing.

The best solution to the peso devaluation problem is to strengthen the economies of each of the countries involved. The sooner stability in the Mexico peso is restored, the better chance we will see for a long-term improvement in the situation along the border.

And, the sooner our country pulls out of the recession, the better chance we will have to reduce the increasingly serious rates of unemployment and low productivity along the border.

Mr. Chairman, although each government must find the strength and courage to take the tough steps necessary to solve its own internal problems, there are things we can do to help each other.

We have a saying along the border, "Una mano lava el otro." That's what we need: One hand washes the other in a cooperative effort.

In the near future, I will introduce legislation to increase the amount of duty-free Mexican merchandise Americans can bring into the United States.

Mr. Chairman, I think that is perhaps what you were alluding to in your comments.

The main effect of this legislation, which a number of U.S. mayors along the border have asked me to introduce, will have the effect of making more dollars available to Mexicans to spend in this country, thereby stimulating retail purchases along the border.

It will also have the effect of reducing Mexico's whopping $2.5 billion trade deficit with the United States. In addition I will be introducing legislation to provide Small Business Administration loans at low rates of interest to those border industries most seriously affected by the peso devaluation.

The Mexican government, on the other hand, can demonstrate its own interest in improving economic relations with the United States by maintaining free convertibility of the peso with the other currencies of the world, by encouraging foreign investment, and by seeking to control the rampant inflation which was the reason behind the peso devaluation in the first place.

If rates of inflation are controlled, the purchasing power of the peso can remain steady with the dollar and other currencies and there will be no further need for devaluations.

Also of concern to me, Mr. Chairman—and I know you have been involved and concerned—is the growing incidence of smuggling along the border in goods, in drugs, and in arms.

From available evidence, I believe that the incidence of smuggling has increased—and will continue to grow until our two governments are able to more effectively coordinate enforcement programs.

We must begin by improving our antismuggling efforts on this side of the border. A congressional committee report to be released in the near future points out that authority for antidrug smuggling operations is fragmented among 17 different Federal agencies sharing responsibility.

Their activities are too frequently characterized by buckpassing and jurisdictional infighting. We must move to reorganize our Federal antinarcotics programs in order to reduce the debilitating impact of ineffective policy coordination; we must work to increase the budget and personnel for the U.S. Customs Bureau and Immigration and Naturalization Service; and we must move to vigorously enforce our domestic laws against drug abuse in order to dry up the market for illegal heroin from south of the border.

The annual drain on our economy—$27 billion a year—plus the social costs, which are involved, are intolerable.

The illegal arms trade as well is costing our Nation a great deal and will cost it even more if the weapons continue going to antigovernment extremist organizations which will threaten the stability of the central government and the economic reforms it is trying to implement.

From information made available to me, millions of rounds of ammunition for automatic rifles, machineguns, handgrenades, and rocket launchers, stolen from U.S. military installations, cross the border each month.

It is clear that the United States has now become the main source of contraband weapons pouring into Mexico.

The Defense Department has lost almost 20,000 military weapons during the last decade—more than enough to equip 10 combat batallions—many of which are automatic weapons that are clearly of little interest to the ordinary citizen but are in great demand by foreign clandestine crime and antigovernment organizations.

I believe the lack of cooperation among our law enforcement agencies in fighting this smuggling is deplorable and threatens not only our own national security but also that of Mexico.

One of the new administration's most urgent priorities must be to streamline and more effectively coordinate our drug enforcement and other antismuggling programs including more stringent monitoring of gun smuggling activities.

Mr. Chairman, there are a number of disparate areas where trade offs can be made between our two countries which will entail scant sacrifice by each government, but which can reap important mutual benefits.

Mexico should modify its unfair fishing agreement with the United States to allow continued U.S. access to rich Mexican shrimping grounds. Mexico should agree to provide the United States with an assured supply of Mexican oil at reasonable prices to allow us to reduce our dependence on politically unstable Arab oil; Mexico should cooperate fully with U.S. Drug Enforcement Agency officials to combat the illegal drug traffic which is the source of 90 percent of the heroin in the United States today; and Mexico should move to reduce its spiralling rate of population growth in order to stem the tide of illegal immigration into the United States.

In return, the United States should provide Mexico with the expertise to diversify its manufacturing sector and expand employment opportunities at home; the United States should move to enforce more stringently its own drug abuse laws and dry up the market for

Mexican heroin; and the United States should move to control the dangerous flow of automatic weapons to Mexican drug peddlers and antigovernment groups.

Beyond that, the United States can be of great assistance in the area of agricultural insect control. We are just beginning to control the screwworm, an insect that imposes millions of dollars of livestock industry losses on both sides of the border.

We should be doing the same thing for the spittlebug or the mosca pinta, an insect that destroys thousands of acres of Mexican grassland and threatens the United States.

The Mediterranean fruit fly also threatens the fruit and vegetable industry. It is an insect we could help them control. All of these are important.

We could help Mexico feed herself by helping fight these agricultural pests and we would be saving this country millions in potential losses.

Both sides should avoid hurling useless comments against the other.

Instead, we should offer Mexico our moral, political and technological support for developing solutions to the serious inequities riddling that nation.

Mexico should demonstrate its interest in smoothing the waters of United States-Mexican relations by doing its own fair share to resolve bilateral problems.

Senator BENTSEN. Mr. Chairman, I appreciate very much the opportunity to be with you. I hope you will forgive me if I go back—we are trying to reorganize the Senate, so we don't all serve on so many conflicting committees. I am an example of trying to serve on two at the same time.

Representative LONG. I wish you good luck, Senator. We tried that in the House 2 years ago and the scars are still around. The committee does appreciate your very enlightened testimony that comes as a result of intimate knowledge of the area. We appreciate also any guidance you can give this subcommittee in the direction it ought to take.

Senator BENTSEN. Thank you very much.

Representative LONG. Thank you, Senator Bentsen, for your fine statement.

Welcome, Governor Castro, we are particularly pleased to have you here today. As I said, you have a unique position because of your birthplace and the position you occupy now, as well as the experience you have had in Latin America. I read your prepared statement and was most impressed by it. We are all obligated to you for taking the time away from your considerable duties and spending it with us. If you will, please proceed.

STATEMENT OF HON. RAUL H. CASTRO, GOVERNOR, STATE OF ARIZONA

Governor CASTRO. Mr. Chairman, I am extremely proud and happy to be invited to participate and give my comments this morning on economic developments in Mexico and the impact of it on the United States.

It is true I have very close ties to the border communities. I was born exactly 100 miles south of the American border and lived all my life on the Mexican-American border, excepting 11½ years I spent with the State Department in the Foreign Service. That time I spent in Latin America.

I think it is evident at this very moment there is a new social awareness of the problems of the border communities. This has occurred since I was a young man. The poorer communities have always lagged in educational opportunities. The unemployment rates have always been above the national median. Sanitation and health conditions have always been way below American standards; you have always wondered why we had the Marshall Plan only for Europe; for countries that were our allies, and for some that were not. We developed them, put them back into being.

We did that with Japan which was not our friend, it was our foe. We did it with Vietnam and they weren't exactly allies. We developed them. Yet, our next-door neighbor to the south, which has been a good friend, good neighbor, very much part of the American scene; we have completely ignored since time immemorial.

I think the devaluation of the peso is only one manifestations. The devaluation is an aftermath of the balance of trade we have had with Mexico. I think they are our best buyers. Therefore, we have to have a fair policy of trade with them.

If you will recall back to 1942, we had a program with the farmworkers that permitted the Mexican agricultural worker to come into the United States and work strictly in agricultural endeavors. That lasted for 22 years. Since the termination of the program, we have had a tremendous influx of Mexican workers coming into New Mexico, Texas, Arizona, and California. The Mexican Government formed a program whereby close to 500 factories were built along the border. When raw material came into the Mexican side, it would be assembled, and exported back to the United States. This created employment for almost 80,000 Mexicans on the border, close to 500 factories. Since the advent of the depression and recession, of course, we have had tremendous loss of employment on the Mexican side.

I will limit my comments to Arizona, which is really my jurisdiction. At this very moment in Nogales, Sonora, there are close to 40-some-odd factories employing 9,000. On the Douglas side or the Prieta side which are border communities, there are about 17 factories employing approximately 7,400 people. Of course, since the advent of the depression—the depression is felt there.

Mexico has undertaken an agrarian land reform project. It is their agrarian reform. Mexico is a sovereign nation, a proud nation. I think we need not interfere with their domestic policies. I don't think we are here to tell them how to handle their agrarian reform movement.

On the other hand, with the difficulty they are having, some of these farmworkers continue to trickle to the border hoping for the possibility of employment. It is they who are coming into the American side. What do I recommend? I am recommending that we have a Marshall Plan for our two border communities to develop, not strictly the Mexican side, but to create economic development on the American, as well as the Mexican side.

I think we can do this, as Senator Bentsen said, by giving small loans to the small businessman whereby he is able to bail himself out. The devaluation of the peso has resulted in the dismissal of many employees. Businesses have closed their doors. Some aren't working full time. Also, the devaluation of the peso has precipitated another dilemma. Because the people don't have the sufficient funds to pay their bills on the American side—some of those debts were incurred in dollars—and drug trafficking is increasing.

Some drug traffic, of course, is coming into the State of Arizona, it being a shipping point for other States of the Union.

I met with the attorney general of the Republic of Mexico about a year ago and we discussed how to combat drug traffic. Likewise, I discussed the problem with the President of Mexico and spoke to him a week ago by telephone. I invited the President of Mexico to attend a seminar in the city of Tucson in April or May, sponsored by Temple University, on what can be done to improve economic development. Likewise, it was our intention to invite President Carter to attend the conference.

I believe that with the advent of title five—the development of the Southwest Economic Border Commission—the object will be to create employment, public employment in border communities. I have been the State chairman of the Four Corners Commission. An example of what can be done is the city of Nogales, which has an unemployment rate of 20 percent on the Arizona side of the border. We were able to give them $600,000 for the city, a community no larger than 11,000 people, to help them develop sidewalks, create industrial parks, beautify the city parks, and put people to work. This is the type of project that can be done by American funding under title five, either by the Border Commission or the Four Corners Commission.

I also think in order to improve the viability of the American side, we must stress the potential of giving bilingual education to those border communities. Many of the students are of Mexican-American origin. They have a language barrier and a language problem. I am a product of a border school. I can verify that.

With bilingual education, we make those students competitive with their brothers and sisters in the United States; make them able to compete and be able to raise their standard of living, which hasn't been done in the past.

I think, Mr. Chairman, to make a long story short, if we are to be able to combat and solve the border economic problems, we must help develop Mexico economically. The future of Mexico is the future of the United States and the future of Arizona is the future of the State of Sonora. Next week the Governor of the State of Sonora, is coming to Phoenix to meet with me for 1 week. I was with him 2 weeks ago in his Mexican state. It was then that we discussed these border problems. He recognizes that some these dilemmas in the Republic of Mexico are Mexican problems. They are saying:

> Don't do anything for us that patronizing. They are Mexican problems. We want to resolve them the Mexican way. We don't need your help, we need your expertise. Let us ask you for that help.

I believe at this very moment the Mexican communities are requesting know-how to develop their country economically.

If Mexico is made economically independent, and it is made attractive to the Mexican, there is no need for the Mexican to cross into the American side. Therefore, if we implemented the Marshall Plan in Europe, why not implement a "Marshall plan" for Mexico, and also for our border communities on the American side?

Thank you very much. This concludes my comments.

Representative LONG. Thank you very much, Governor.

You have presented, as you did in your prepared statement, a number of very valuable suggestions. When we get to our discussion, I would like to explore those further and perhaps get the views of our other experts on these.

Without objection, your prepared statement will be printed in the hearing record.

[The prepared statement of Governor Castro follows:]

PREPARED STATEMENT OF HON. RAUL H. CASTRO

Chairman Long, Honorable Senators and Representatives: It is with a sense of personal pride and enthusiasm that I have accepted your invitation to testify at these hearings on "Recent Developments in Mexico and their Economic Implications for the United States."

Having been born in Mexico, having served as ambassador to two Latin American nations, and having lived in Arizona and Mexican communities most of my life, I believe I have a certain perspective on the problems and opportunities that face us. As Governor of the State of Arizona, I have experienced countless fruitful interchanges between our state and Mexico.

The U.S. border with Mexico is a long one. It has consistently provided opportunities for people along both sides. Mexico provides a major market for United States' manufactured products and technological services. Mexican tourism and travel in the U.S. has been significant. Mexican citizens living in the border area have provided many opportunities for U.S. merchants. The opportunities for economic interaction are most impressive along the Arizona/Sonora border—over 1500 miles from Mexico City.

Recent economic developments in Mexico have had a serious impact on the local economies of the border region. As Governor of Arizona, this is my primary concern. The economic good health of the area is vital to citizens on both sides of the border.

The recent devaluation of the *peso* and the economic impacts that have accompanied it should be viewed in a wider context. Tremendous population pressures continue to build in Mexico. Landless workers facing high unemployment rates in Mexico migrate northward in search of increased job opportunities. Economic development of our neighbor to the south is the key to a stable future in the border region.

IMPACT OF DEVALUATION IN THE BORDER REGION

It is still too early to offer precise forecasts about the effect of the devaluation on the economy of Mexico, but something can be said about its effect on the economies of the border cities of the United States.

Without question, the devaluation has created substantial hardships on both sides of the border. It has hurt American merchants in the region because it decreased the purchasing power of the consumer in northern Mexico to buy U.S. goods and services. Many Mexican citizens have preferred to buy products made in the United States. To many Mexican nationals, the shops in the border cities stock quality merchandise that is conveniently available. The simple fact of the matter is that the United States has a competitive and effective system for delivering products and services to the ultimate consumer. Moreover, the major shopping areas in Mexico are located far away from the border.

The impact on the local economies on the U.S. side of the border depends on their relative reliance upon retail sales to Mexican citizens. This ranges from

91-139—77——7

65–70 percent in the case of Nogales, Arizona, to 45 percent in Douglas, Arizona. Small, but significant, proportions exist for Tucson, Yuma-San Luis, and Bisbee —all in southern Arizona. Mexican citizens were spending some $4.3 million a month in Nogales, Arizona at the time of devaluation. Upon devaluation, the purchasing power of Mexican nationals fell some 40 percent!

The picture has improved in Douglas somewhat since last October when retail sales tumbled about 30 percent. Retail sales in the Nogales area remain some 25 to 30 percent off.

The decreased sales activity resulting from devaluation has caused the outright closing of some retail outlets in the border area. Most retail stores have, at least, been forced to lay off sales personnel. Some have been compelled to lay off as many as one third of their employees. Others have been forced to reduce the number of working hours of their employees.

There is a general consensus that "after all the dust has settled" (that is—devaluation, flotation, wage increases, price increases, and so on) the purchasing power of individual Mexican nationals shopping in U.S. markets will have declined by about 20 percent.

The situation is a complex one. Further impacts will depend on how and when production costs are stabilized in Mexico. This, in turn, depends on the interplay of such factors as: wage increases, cost increases for parts and services, and cost levels for financing. It should not be overlooked that Mexican consumers, purchasing more products made in Mexico, will stimulate job creation in Mexico. Depending on population growth rates, this will serve to alleviate to some extent pressures for migration.

A central question is whether or not Mexico can hold down the rate of inflation—relative to the United States. This is important because the U.S. is Mexico's principal trading partner, accounting for about 60 percent of Mexico's imports and exports. The long term "fall out" resulting from devaluation is full of uncertainly. The devaluation does offer Mexican products at least a temporary competitive advantage in the U.S. market. This should help to strengthen the Mexican economy. A strong and dynamic economy in Mexico, after all, is the most enduring solution to the problems before this committee.

Attached to my testimony are newspaper clippings illustrative of some of the impacts I have discussed, and many others. (See Exhibit A.)

LAND REFORM AND AGRICULTURAL PRODUCTION

I was asked to address the issue of land reform in Mexico as part of my testimony. It is my feeling that it is of utmost importance that we refrain from interfering in the domestic or internal politics of an other country.

We in the United States have to recognize that there is a history of land reform in Mexico that is quite different from the American experience. As a sovereign state, Mexico takes pride in the rich traditions, history and culture that grow out of the Mexican Revolution of 1910. We should strive to comprehend that Mexico is attempting to resolve its own problems in its own way.

It may be difficult for Americans to reconcile a professed desire and obvious need in Mexico for improved agricultural production with steps that seem designed to impair that production. But we must try to understand, and, most of all, we must avoid a stance of enthnocentric arrogance. Whatever solutions are developed, one can be sure they will be Mexican solutions.

Agricultural production is one of the most important contributions of the Mexican states of Sonora and Sinaloa. Almost all of Mexico's wheat comes from Sonora. Invaluable foreign exchange is generated by vegetable and fisheries production. The state of Sinaloa, for example, exports $200 million worth of winter friuts and vegetables to the United States.

Mexico's experience with agriculture, in general, has been cyclical. At various times Mexico has been either a net importer or a net exporter of food. The talent and resources expended to develop food and fiber production in Sonora, hopefully, can be retained and expanded. The health of Mexico's agricultural system and the resolution of land tenure issues will shape future migration patterns in a major way.

OIL PRODUCTION

One hopeful sign in Mexico's future concerns the development of her oil reserves. My good friend, Al Wichtrich, who previously testified before this committee, pointed out an important fact at a recent session of the Arizona World Trade Association in Phoenix. He suggested that Mexico has had the good fortune of seeing her petroleum reserves expand at the very moment that oil has become a key factor in international economics.

Mexico has been an oil-producing nation for many years. It is not generally known, however, that up until two short years ago, Mexico had to import crude oil to meet domestic needs. Most of the oil was imported from Venezuela. With the discovery and development of new oil reserves in southeastern Mexico, current production stands at 900,000 barrels a day! It is expected that the one million mark will be exceeded this year. Once again, we are talking about a situation that will stimulate employment opportunities in Mexico. As mentioned earlier, a strong Mexican economy is the key to the development of strong local economies in the border area.

Today, Mexico's petroleum export capacity stands at approximately 200,000 barrels a day. At current international prices, these exports are valued at about $2.5 million per day. Dr. Edward Williams of the University of Arizona, who has followed the development of the Mexican oil industry, estimates that Mexico's potential reserves stand at about 50 billion barrels. When we consider that the vast Alaskan oil fields contain, by comparison, about 10 billion barrels, we can begin to appreciate Mexico's potential role as a source of petroleum for the world market. Aggressive development of the oil reserves could help stabilize the Mexican economy substantially during during 1977.

MINING AND SMELTING DEVELOPMENTS

Developments in the area of mining and smelting can also assist in the stabilization of the Mexican economy. The Mexican state of Sonora produces the largest percentage of its country's copper, as Arizona does for the U.S. The La Caridad and Pilares mine developments near Nacozari will almost double Mexico's copper production. Northeastern Sonora, along with the town of Cananea where I was born, produces most of Mexico's copper. The development of mine properties at Nacozari has provided an important market for United States mining equipment and new housing materials.

The first ore mined at Nacozari will be smelted at Cananea, with a small portion going to the Phelps Dodge smelter in Douglas, Arizona. Long-range plans call for the copper ore to be concentrated at the mine site. The concentrate, in turn, will be shipped to a new smelter at Guaymas—a seaport some 400 rail miles from Nacozari.

This will, of course, dilute the foreign market for Arizona copper. It will, however, have the off-setting advantage of increasing the purchasing power of the Mexican nationals employed in the mines. The increased purchasing power will impact favorably in Arizona's border communities.

BORDER TRADE AND TOURISM

The trade partnership between Arizona and Sonora has truly been a two-way process. Arizonans, especially those who live and work in the border cities, purchase many goods and services from Mexico. They make use of Mexico's pleasant resort facilities. Many have vacation homes along the beautiful Sonoran coast. American tourists in Mexico are finding their dollars are going a lot farther as a result of devaluation. Many Mexican nationals, on the other hand, are spending up to 65 percent of their payroll in U.S. border cities. This contributes to both retail volume and city sales tax revenues. As already indicated, however, purchases have declined dramatically since the devaluation.

Areas of Cooperation and Coordination

TWIN PLANT OPERATIONS

In recent years the government of Mexico launched a "rescue operation" for the areas bordering the U.S. Many thousands of Mexican citizens had migrated to the border area, creating intense population pressures. As a partial solution, Mexico encouraged U.S. firms to locate in the region.

The program, whereby U.S. plants assemble components in Mexico, has been quite important and successful for the past ten years. The products assembled in Mexico are manufactured in the United States. In Nogales, Sonora there are more than 40 U.S. firms, employing over 9,000 Mexican nationals. The firms are engaged, primarily, in electrical equipment components and apparel. In Agua Prieta, across from Douglas, there are 22 U.S. firms that employ more than 4,500 persons in similar product lines.

These Twin Plant activities, plus a few in San Luis, employ thousands of Mexican citizens who spend significant portions of their paycheck in their sister cities in Arizona. These Mexican citizens are self-supporting and are not likely to join the ranks of the so-called illegal aliens seeking greater opportunity in the United States.

Mexican employment in the border area does tend to attract additional people from the interior regions in search of job opportunities. The government of Mexico is sensitive to this phenomenon. Border pressures are relieved to some extent by the creation of similar development strategies in other parts of Mexico. As mentioned, the components assembled in Mexico by the Twin Plant operations are, for the most part, manufactured in the U.S. This provides employment and tax revenues here.

We have here a rather unique economic relationship that provides many more advantages to the United States than the "off shore operations" in Asia and Europe which provide no such direct benefits to the American economy. Appearances of instability in Mexico have discouraged some potential manufacturers from setting up operations in the Twin Plant program.

NARCOTICS ENFORCEMENT

Illegal use of narcotics by anyone in Mexico is usually regarded much more seriously in that country than it is in the United States. This is difficult for many American citizens to understand when they find themselves or their relatives in a Mexican prison. In my judgment, Mexico is making a sincere attempt to curtail illegal traffic in hard drugs. I must remind you, however, that if there was no market in the United States for these dangerous drugs, there would be no problem in drug traffic.

A Border County Narcotics Strike Force has been in operation in Arizona for about a year now. In my recent opening message to the Arizona Legislature (see Exhibit B), I urged the creation of a Statewide Narcotics Strike Force. I have already contacted the Governors of Utah, Colorado, and New Mexico about a regional approach to the narcotics problem. They have assured me of their cooperation.

Obviously, at least a portion of the blame for the narcotic problems must rest with U.S. consumers who create the demand. The Mexican government, on the other hand faces a massive problem with the illegal importation of firearms which are used as trading materials for narcotics. These arms, in turn, are put to further illegal use as instruments of violence in Mexico. The problem deserves the attention of U.S. authorities.

THE ARIZONA/MEXICO COMMISSION

Another on-going cooperative or joint effort that requires continuous attention and support is the Arizona/Mexico Commission. The Commission was founded in 1959 as the Arizona-Mexico West Coast Trade Commission. For many years it worked to improve relations in the areas of economic development, cultural exchange, education, and communications. In 1972 the Commission was reorganized. I am appending a copy of the December Report of the Commission to my testimony. (See Exhibit C.)

It is generally agreed that the State of Arizona enjoys an excellent relationship with the State of Sonora and Mexico in general. The Commission is one reason why we enjoy good rapport with our neighbor to the south. Under the sponsorship of the Commission several projects are being undertaken. There is a cooperative arrangement for the publication of border cities prospectuses for Agua Prieta/Douglas, Bisbee/Naco, Nogales/Nogales, and San Luis/Yuma. Once completed, these bi-lingual economic publications will be used as major promotional tools to attract industry to the border cities. This is just one example of the kinds of things that can be done on a cooperative basis. The Commission has on-going programs in the area of agriculture and livestock, banking and finance, and education.

TITLE V SOUTHWEST BORDER REGIONAL COMMISSION

Another example of joint action program is the newly created Title V Southwest Border Regional Commission. In 1975 Congress passed the Regional Commission Improvement Act. This amendment to the Public Works and Economic Development Act of 1965 encouraged the creation of a regional commission that would include the border region of the states of Arizona, Texas, California, and New Mexico. I, along with the Governors of the other three states, submitted a formal application in July of last year. I am attaching a copy of the application to my testimony. (See Exhibit D.) It was approved late last year and the new Southwest Border Regional Commission is presently in the early formative stages.

With this new Commission, the four border states will be able to coordinate their activities more effectively. They will be able to share responsibility for dealing with border-related problems, as well as opportunities. The new Title V Commission will offer a multifaceted approach which will integrate into a general economic development strategy such items as: improvements in health care services, transportation facilities, educational opportunities, and public works programs. It is not too far-fetched to suggest that the newly created commission, while pursuing its mandate of economic development, can make a substantial contribution to improved international relations between the United States and Mexico. Every job created along both sides of the border will strengthen the ties between the two counties. Every border issue which is approached in a spirit of good will and mutual understanding will strengthen the relationship.

Mexico possesses an economy which is both a challenge and an opportunity for the United States. Since Mexico's population is projected to exceed 100 million by the year 2000, it is obvious that border conditions will require more intensive attention in the future. Strong support at the national level for the new Border Regional Commission will enhance the work that must be done.

The Title V Regional Commissions, such as the new Southwest Border Regional Commission, are designed to operate as genuine federal/state partnerships. A disturbing element in recent budgeting procedures has been a refusal to allow state members full participation in the process. The 1978 administration budget recommends a 40 percent reduction in Commission funding. It eliminates the Supplemental Grant funding authority given to the Commissions by Section 509 of the Public Works and Economic Development Act.

The proposal to eliminate the supplemental grant program was prepared without adequate legislative review and assessment. I ask that you look into this matter. The proposed 40 percent cut would severely damage the ability of Commissions to work effectively. The original budget request proposed by the state members needs to be restored.

I further recommend that future Public Works monies be administered and implemented by the Title V Commissions. In Arizona we have had considerable success administering the projects in this way. A recent example is a project in the border community of Nogales, Arizona. The Public Works Project began in January of 1976 and ended last month. The project has had a substantial impact on the unemployment problem of Santa Cruz County; it enhanced the surrounding area, making it more attractive for industry to locate there; and it provided a number of minority workers with an opportunity to upgrade their basic skills. Channeling Public Works monies through the Regional Commissions provides for an integrated approach to state development issues and problems.

What Else Might Be Done?

FEDERAL "OMBUDSMAN"

Ours is a complicated system of government. One concrete suggestion would be the creation of a federal "ombudsman" post. The purpose would be to cut across jurisdictional lines of agencies with conflicting rules and missions. The U.S. Departments of State, Treasury, Justice, Commerce, and HEW—to name just few—all have a "hand" in U.S./Mexico relations. As has been asked many times: "Who's in charge here?" We need a responsive and authoritative "red tape cutter" who enjoy the full backing of the President and the U.S. Congress.

RECONSIDERATION OF QUOTAS FOR IMMIGRATION

The subject of immigration from Mexico—both legal and illegal—has been the topic of heated and intense discussions. The shape of migratory patterns that develop, and their magnitude, are directly linked to existing economic conditions in both the United States and Mexico.

We must remember that, historically speaking, what is now the southwestern part of the United States was once Mexican territory. A line some 2,000 miles long was drawn through the deserts and a river bed. Restrictions were placed on passage.

What is now Cananea, Sonora, where I was born, suddenly became just a short distance from the U.S. border. Practically overnight, it became illegal for my ancestors to go very far north, or to visit friends, without conforming to a confusing set of bureaucratic rules and regulations. The rules and regulations have become much more numerous and confusing since I came to the United States as a young boy. I can assure this committee that I am here legally, and enjoy the privilege of being a United States citizen by choice.

The numerically restrictive immigration system now in place excludes the very kind of person we most want to immigrate to the United States—the kind that flocked to our shores at the turn of the century. The people of northern Mexico are better educated, better informed, and more mobile than their ancestors. The United States exerts a strong pull on those seeking expanded job opportunities.

I fully understand that we must take steps to ensure that workers in the United States are not displaced from their jobs as a result of immigration policies. We must also act to prevent the use of immigrant labor—illegal or otherwise—to depress the income levels of U.S. wage earners. Nevertheless, with good will and mutual understanding, I am convinced we can find practical and humane solutions. Simple human dignity and international good will demand no less.

AID PROGRAMS

As indicated, Mexico is one of our most important trading partners. It is recognized that we must help friendly nations. If we can help nations half way around the world, why can't we act to bolster the economy of our immediate neighbor to the south? Certainly, the increased prosperity of Mexico would benefit us directly. The suggestion of a "Marshall Plan" type aid program has been raised. While I see problems, as well as opportunities, with such a program, I believe it deserves careful and serious consideration.

Objections to such a program can be expected not only from domestic sources, but also from Mexican citizens who take pride in an independent Mexico. It would seem that an acceptable solution could be worked out that would neither dilute Mexican sovereignty, nor compromise her independence.

MORE EXPEDITIOUS ISSUANCE OF BORDER CROSSING CARDS

Turning to another topic, I know that officials and personnel in the Immigration and Naturalization Service have a task to perform. I know they are overworked and under-staffed. However, if there is one major contribution the U.S. federal government could make in restoring retail sales along the border, it would be in developing more efficient methods of issuing border crossing cards. I am confident this could be done if it were so directed. The concept of an "open border" has been raised. While it means different things to different people, it merits further consideration.

If we accept the fact that, on the average, the purchasing power of the Mexican citizen shopping in the United States has declined by about 20 percent, then one obvious solution is to increase the number permitted to cross the border to shop. If new procedures or new regulations are needed to expedite the issuance of border crossing cards, I ask your consideration and support.

EMERGENCY RELIEF FOR ECONOMIC DISLOCATIONS

I would make one final recommendation. The border economies of the U.S. and Mexico present a rather special set of circumstances that deserve special treatment. The economic dislocations created in the border cities following the devaluation of the *peso* were intense and damaging. For a while the area was similar to a national disaster area. Emergency relief from the federal government could have speeded up a recovery. I urge you to consider the passage of federal legislation which could provide for emergency economic relief in times of widespread economic distress. Devaluations of currency cannot be anticipated and effectively planned for.

Conclusion

This brings me to my concluding thoughts. Arizona and Sonora border cities are, for many purposes, one international city with a rather bothersome fence running east and west. This is especially so in Douglas-Agua Prieta and Nogales-Nogales, where fire departments of the U.S. and Mexico back each other up on a regular basis. In such emergency situations, the police from each city coordinate traffic control problems. Arizona fire hoses pump needed water across blocks of Mexican streets to help save lives and property. The cities share sewer systems, water supplies, health services, and other municipal facilities on a daily basis.

I am attaching several statements from the mayors and chambers of commerce of various border cities to my testimony. (See Exhibit E.) I want to draw your special attention to their comments.

I would like to thank you for the opportunity to testify before this committee. The subject you are exploring is of vital interest to Arizona.

My friends in Mexico indicate to me that confidence in the Mexican economy is being restored. This is reflected in the recent "firming up" of the peso.

It is rumored that Mexico's new President will be one of the first foreign heads of state to visit President Carter. This is quite fitting and proper. The early visit by President Lopez Portillo will symbolize the importance of our fiscal and economic relations with the 31 states of Mexico. High Mexican officials have shown interest in developing border programs that are harmonious with ours. I would respectfully suggest that any meeting between the two heads of state take place in Arizona. It would be both an honor and a privilege for us to act as host.

I am encouraged by the work of this committee. I believe prospects for strengthening U.S./Mexico relations are good indeed. Thank you.

Exhibits follow:

EXHIBIT A

[From the September 22, 1976 issue of the Arizona Weekly]

Peso Drop to Result in "Long Slump"

(By Daphine Overstreet)

Nogales businessmen are already feeling the immediate effects of Mexico's decision to devalue the peso. But for a different perspective on the current peso crisis, the International consulted two specialists from the University of Arizona—Dr. Donald Wells, professor of economics, and Dr. Michael Meyer, director of the Latin American Area Center.

According to Meyer, President Luis Echeverria decided to devalue the peso recently "because it would have been an unpopular move for the new president to make. The economic crunch became so critical it was necessary to take action immediately.

TWO ANSWERS

"About two years ago a number of European countries let their currencies float. Mexico waited, but finally couldn't hold off any longer."

Wells said this interpretation is the kind answer to the question of timing.

"The other side of it is that he unleased a lot of problems brought about by the devaluation. For example, labor unions are already demanding a 60 per cent increase, and if they get it, the whole point of the devaluation is ruined, and the new president gets blamed. A whole series of factors have been set into motion."

According to both men, Mexico's real problem is inflation and the balance of payments.

HARD TO IMPORT

"Mexico has a large foreign debt," Meyer said. "The devaluation will help because it will be easier to export items and more difficult to import them."

According to Wells, exports must be encouraged if the devaluation is to work. "The devaluation covers the past sin of Mexico which is inflation. Their prices got too high compared with foreign prices, and it always shows up in the balance of payments.

"Mexico is trying to cure the balance of payments problem, which the devaluation does. But the remaining question is if they will do the kinds of things they have to do to hold domestic prices down," Wells explained.

PRICE CONTROLS

"The government is going to have to put in wage and price controls or cut way down on government spending. If you have a devaluation because of inflation and you don't do something to get rid of the inflation, you cause the situation where you have to devalue again.

"In other words, the fundamental problems have to be cured or the devaluation is a failure. The real consequences are complicated, and no one can say what they will be because it all depends on future policy. The devaluation could be eroded in a year if inflation keeps up," Wells said.

EXPORT TAX?

The new Mexican tax on exports remains a mystery to Wells.

"The effect of the devaluation is to increase the price of imports. Export taxes are typically not used because most countries want to encourage exports. It appears from the outside that Mexico may not be handling their current monetary crisis well."

On a brighter note, Meyer believes the first step towards stabilization occurred Sept. 12 when Banco de Mexico said they would guarantee the peso's worth at 19.70 and 19.90.

"That took away a lot of uncertainty. Now everyone knows the peso won't be worth less than that," Meyer said.

LONG SLUMP

But even when the peso does stabilize, both men believe business will be down for a long time.

Asked what effect the devaluation will have on the Mexican population, Meyer said the peasant class will not be affected much "because they aren't tied to a monetary economy. It's the middle class that will be hurt. Even with two incomes in a family, it will squeeze them hard, They have cars, TV sets and so on. Now the peso won't buy as many imports and comforts."

Wells added that the middle class standard of living is tied to imports.

"The only people who will come out of this unhurt are those who were rich enough to have money out of the country to begin with."

—

[From the September 23, 1976 issue of the Douglas Dispatch, Douglas Ariz.]

BORDER BUSINESS HURTING

Tucson, Ariz. (AP)—Most U.S. businessmen along the 1810-mile Mexican border are tightening their belts for hard times atfer the Mexican government devalued the peso last month, allowing it to stabilize at 20 to the dollar.

But in the larger cities of El Paso, Tex., and San Diego, Calif., the floating peso has not seriously hurt the economy. San Diego lies about 15 miles north of Tijuana, but a spokesman for the San Diego Chamber of Commerce says the devaluation will have some effect, but it hasn't yet been determined how much.

El Paso Chamber of Commerce spokesman Mark Miles said the overall decline in business there is about 10 per cent, with stores lying closer to that city's border with Ciudad Juarez bearing most of the burden.

In Douglas, though, businessmen say they've lost more than 50 per cent of their trade because Mexicans from Agua Prieta aren't crossing the border anymore, forcing many stores to lay off as many as a third of their employes.

"Things are bad, let me tell you, a prominent Douglas businessman, who asked not to be identified, said. 'An old timer came in here the other day and said "You want to see what Douglas looked like 30 years ago? Take a look outside." The parking spaces were empty and there were no cars on the street."

The Mexican peso was allowed to float Sept. 1 after being tied to the dollar for 22 years. The former rate of exchange was 12½ pesos to the dollar, which means Mexicans who used to pay 50 pesos for a $4 U.S.-bought item now must pay 80 pesos. Many can't afford it and are staying home.

Chamber of Commerce officials from Laredo, Tex., to San Isidro, Calif., report an average 40 per cent decline in retail sales, resulting in heavy layoffs at many stores.

"It's a helpless feeling, there's not a thing we can do," said George Uribe, president of the Nogales Chamber of Commerce in Arizona's hardest-hit border city.

Uribe said at least 80 per cent of Nogales' retail trade normally came from Mexican citizens. "This could be more serious than the last devaluation, because of inflation and unemployment," he said. "It's going to last at least six months. It's going to be a cold, hard winter."

—

[From the September 25, 1976 issue of the Nogales International, Santa Cruz, Ariz.]

Peso Drop Causes 125 Layoffs Here; Unemployment Expected to Increase

(By Ron Cleveland)

To date, 125 persons have been laid off in Santa Cruz County as a result of the devaluation of the peso, local Arizona Department of Economic Security officials said Wednesday.

An additional 50 persons have received a reduction in the number of hours at their jobs. Unemployment as a result of the devalued peso will probably continue to rise, said one official who asked that his name be withheld.

When persons have adjusted to the new peso, business should increase, meaning jobs will again open, but no one knows when that might happen, he said.

"It's going to take time for people to get used to the five-cent peso. They will eventually, but when?

"We're in trouble," he added.

"JOINED IN DEATH"

"Both Nogales' are to be likened to Siamese twins, joined to the death, utterly inseparable, and prosperity and depression are shared equally."

Throughout the state, especially in Phoenix and Tucson, major trade centers, the effect of the devaluation has been felt, he said.

"However, the two large communities do not have all their eggs in one basket, as do Nogales, Douglas and Somerton. It is the luck of geography that gives these communities their importance," he continued.

To compound problems, Mexico has also established an export tax. This tax will effect the produce shippers in this area, he said.

"The produce industry generates into the $200 million range of goods and related services and absorbs up to 1,000 workers on the border."

PROHIBITIVE TAX

"The tax is substantial and may well be prohibitive," he added.

Persons in the produce business fear that Mexican farmers may decide to ship their products south, to Mexico City, rather than to the northern markets.

"The prime reason given (for shipping south) is the profit potential, without the harassment and cost of the export duty."

It is hard to understand the reason for the imposition of the export tax, if the purpose of devaluating the peso was to increase exports and stop the out-flow of money from Mexico, he said.

Rather than encouraging money to flow into the country the export tax could discourage persons from buying Mexican products, the official said.

"This imposition of an export tax is extraordinary, considering that Mexico is currently suffering from a balance of trade deficit of approximately $3.3 billion."

To his knowledge, there was only one other country with an export tax, the official said. That country is China.

[From the September 25, 1976 issue of the Nogales International, Santa Cruz, Ariz.]

EXPORT TAX DEPLORED BY MAQUILAS, PRODUCE INDUSTRY

(By Daphne Overstreet)

At press time Thursday, twin plant managers and produce brokers in Nogales were still bewildered by Mexico's new export tax.

"It's an unjust tax," Harry Hodge of Chamberlain Manufacturing Corp. said. "It's affecting us drastically and slowing down exports."

The export tax, which was imposed a week after the peso devaluation, taxes various commodities according to weight. The Diario Official of the Mexican government lists the tax on electronic equipment at 2 pesos per kilo, while cloth is taxed at 2.30 pesos per kilo. Official rates on other exports by the kilo are: sporting goods at 2.75 pesos, shoes and leather goods at 65 centavos, furniture and wood products at 20 centavos, food and beverages at 15 centavos and other manufactured goods at 90 centavos.

TAX BY WEIGHT

According to Charles Meaker of Pickett Industries, the tax is not based on the value of the products, but solely on weight.

Companies with heavy products are really getting it right now," Meaker said. "Mexico should remove the tax for twin plants because we're bringing in money."

Meaker explained that Pickett Industries is not suffering as much as companies which produce heavy articles. Pickett produces mainly art, engineering and drafting supplies which weigh little.

"An hour of work will cost us 20 per cent less this year because of the devaluation. Our products will still cost us less even with the tax. But companies with heavy products will be hurt."

FRIDAY MEETING

Hodge, whose company manufactures automatic garage door openers, agrees. "The tax is affecting us drastically. I think the Mexican government will drop the tax within a week or two. We hope to know after the meeting here Friday."

Mexico's undersecretary of the treasury was expected to meet with maquila managers Friday. Hodge said the managers will let him know they want the tax removed.

Hodge said the export tax on each of his garage door openers is $2.60. The units sells at stores for $155 to $200.

"It's slowing down exports. I have 6,000 units here which would mean almost $15,000 in taxes I'd have to pay. Twin plants give more money to Mexico than the whole tourist business," Hodge said.

WHY EXPORT TAX?

So far, no one really understands why President Echeverria imposed the export tax in the first place.

Meaker said he read an account in Hermosillo's newspaper, the Imparcial, that said the rationale for the tax was that exports would increase so rapidly after the devaluation that shortages would occur in the country.

"But the whole point of the devaluation was to increase exports," Hodge said. "The whole tax was badly imposed. The government could have set rates that wouldn't have burdened the taxpayer."

Some produce brokers are equally confused.

One source said he couldn't understand why the government decided to devalue and then set an unreasonable tax.

"The tax will decrease the profits to Mexican farmers who already lost money in the devaluation," he said. He added that the rising prices of goods in Mexico would probably offset much of the devaluation.

The source also said there is a chance the tax will be eliminated by the time produce season begins in November.

The current export taxes based on the pound are tomatos at .5 cents, cucumbers at .6 cents, peppers at 1.2 cents, squash at .2 cents, beans at 1.2 cents, melons at 16 cents, watermelons at .4 cents and peas at 1 cent.

[From the September 29, 1976 issue of the Douglas Dispatch, Douglas, Ariz.]

BUSINESS DROPS 30 PERCENT IN DOUGLAS

(By Jack McElroy)

It was almost a month ago that Douglas merchants were rocked by a pronouncement from Mexico City that the peso would be allowed to "float" on the international money market.

Since then businessmen have had a chance to consider what the currency's devaluation means and what it will likely mean in the future.

President of the Douglas Associated Merchants Swain Chapman is optimistic despite what he estimates to be a 30 per cent drop in business since the devaluation.

"We've lost a considerable amount of traffic from people who came to Douglas to shop and are now going into Mexico because the prices are lower," he said.

"That's essentially what Echeverria (Mexican president Luis Echeverria) wanted, but I don't think he'll be also to accomplish that. Mexico is still heavily dependent on imports," he added.

Severing the peso's 22-year tie to the dollar resulted in about a 40 per cent decrease in the buying power of the currency.

But Chapman feels the law of supply and demand will eventually force the Mexican consumer to again shop in the U.S. where goods are in greater supply.

President of the Douglas Chamber of Commerce, Bob Moreno agreed. He called the devaluation a "temporary setback" and said the Mexican buyers will return in "two to six months depending on how long it takes the people to adjust to new prices and how much they want American goods."

But he added, the devaluation may serve to open the eyes of some local merchants.

"We feel that the people in the retail sector are more aware that they have placed all their eggs in one basket," he said.

The Chamber of Commerce is initiating a program to find out how merchants can draw more business from this side of the line.

The intent of the program is to create a dialoge between the merchants and consumers to "find out what it is they (U.S. customers) find in Tucson or elsewhere that they don't find here," Moreno said.

Chapman and Moreno agreed some positive signs have been apparent south of the border.

One is the recision of the 20 per cent export duty on products manufactured in Mexico. Moreno said the duty has also been rolled back on some agricultural goods—shrimp, vegetables and pork—and hopefully will be rescinded on cattle products in the near future, bringing more money to the Mexican cattle growers.

Chapman said he was also glad to see the Mexican government allow merchants to raise their prices 10 per cent. Since devaluation Mexican retailers have faced the threat of heavy fines for raising prices.

Both factors will put more pesos in the hands of the Mexican buyer, Chapman said.

A third factor, and perhaps the most telling one, is this week Mexican workers will receive their first pay-checks under a retroactive wage increase recently announced by Echeverria.

Workers will be taking home checks 16 to 23 per cent higher than their last ones.

"This week should be a good indication of exactly how things will go. We are optimistic we will see a turn around." Chapman said.

"I think the big problem merchants have at this time is restoring the consumer's confidence," he added.

He blamed the differing rates of exchange in town for keeping many customers away.

"There is a tremendous amount of speculation going on. I think this is a direct reaction to the different banks inability to come up with a firm exchange rate. In doing so they are directly adding to the consumer's problems at the merchant's and businessman's expense," Chapman said.

He added, as a result the merchants have failed to agree on a rate of exchange too, which has hurt business overall. Although most businesses exchange pesos at the rate of 20 to the dollar, some are offering rates of 16 to one or 17.50 to one.

Moreno denied the banks are "profiteering" by not setting a firm exchange rate. "We are hedging the fact that we receive the pesos today and we can't deliver them to Mexico until tomorrow.

Moreno is an employe of the Valley National Bank where pesos being bought at the rate of 20.50 to the dollar and are selling for 19.50 to the dollar.

The bank encourages people to exchange their pesos before they do their banking he added. Banco de Mexico is exchanging at 19.70 and 19.90 pesos to the dollar.

Though Chapman and Moreno see brighter days ahead for local retail stores, these days are grim for many of those store's employes.

Lay-offs are running at about the same rate as the drop in business, roughly 30 percent, Chapman said.

"What's really bad about it is it is happening at our normally peak retail period," commented Moreno. But he added, "We feel that the Mexican business will return."

—

[From the September 29, 1976 issue of the Douglas Dispatch, Douglas, Ariz.]

TRADE IN DOUGLAS HURT BY DEVALUATION OF PESO

(By Carol Trickett)

Douglas—In the southeast corner of Arizona, sales clerks speak Spanish, the Chamber of Commerce has printed peso-conversion charts and two cities belonging to two countries yearly join together for a "Two Flags Art Festival.

A large percentage of the population of Douglas is Mexican-American and traffic between here and sister-city Agua Prieta, Mexico, is mostly local.

But recent devaluation of the Mexican peso has stunned the normally vigorous trade here, and three Mexican nationals who jumped the fence west of this copper-smelting town Aug. 17 didn't get a warm reception.

Bernabe Herrera Mata, 21; Eleazar Ruelas Zavala, 24, and Manuel Garcia Loya, 25, limped five miles back to a hospital in Agua Prieta and told authorities they were beaten and then tortured while looking for farm work.

A Douglas businessman and rancher, George Hanigan, was indicted Aug. 27 by a Cochise County grand jury, along with his sons, Patrick, 22, and Thomas, 17.

Superior Court Judge Anthony Deddens bowed out of the case, citing a personal friendship with the elder Hanigan, and Pima County Superior Court Judge J. Richard Hannah of Tucson is stepping in.

The Hanigans, one of whom reportedly was victimized by burglars shortly before the incident, face 14 counts of kidnaping, assault and robbery.

"We've had a lot of burglaries in that area near the Hanigan ranch," said Cochise County Sheriff's Detective Frank Gonzales, "and a lot of them have been done by aliens."

Although Douglas does not have as much illegal alien traffic as Yuma because of a tighter job market here, the U.S. Border Patrol caught 4,585 illegals here last year, said Edward T. Blankenship, agent in charge.

Many illegal aliens work in the farm valley northwest of here, the agent said. "We check the farms all the time," he added. "Yesterday some men went up there and found eight; last week they got 16 aliens on several different ranches."

The stereotyped "wet back" of the alien is sometimes muddy shoes and trousers, Douglas Police Sgt. Roy Pischer said.

Ability to spot illegals "comes from experience," he said. "You can tell, for instance, they kind of stick out. If his shoes are muddy and his pant legs are wet and muddy, he might have been in the ditch (at the border)."

No figures are available on the number of aliens who burglarize Douglas homes, although street talk says there's a great number of alien-committed burglaries.

Signs are small Mexican matches on the floor, pillowcases taken to carry out the loot, and a raided refrigerator, he explained.

There's trouble within "the system," too, admits Chamber of Commerce Executive Director Pat Shannon.

"From a business standpoint, you play with two countries' sets of rules and it broadens your business experience considerably," he said. "We find it very enjoyable to work with our Mexican counterparts who are interested in the free enterprise system as much as the different rules for commerce permit."

But Mexico's decision to allow the peso to "float" has caused "quite a reduction in business," Shannon said, because Douglas serves as a shopping center for parts of the Mexican state of Sonora.

"THINGS WILL get better as Mexican purchasers become less frightened about the value of their pesos, and adjust to the fact that it's been leveled off at the current level" of under five cents, compared with eight cents a month ago, Shannon said.

Meanwhile, Shannon said, "We're going to wait it out.

"There have been some employes laid off, of course, because stores who catered most of their trade to the Mexican national were hurt the worst, and have had a 30 to 50 per cent drop in income."

Devaluation of the peso has resulted in "no bitterness toward the United States," the Chamber official added "We have found that the Mexican who has continued to buy has a good attitude and our relations are very good." However, Blankenship said, the population of Mexico continues to grow faster than the number of jobs, and aliens continue to cross the border.

—

[From the September 29, 1976 issue of the Scottsdale Daily Progress, Scottsdale, Ariz.]

PESO'S DECLINE STUNS DOUGLAS, MAKES TROUBLE FOR SOME ALIENS

(By Carol Trickett)

Douglas (AP)—In the southeast corner of Arizona, sales clerks speak Spanish, the Chamber of Commerce has printed peso-conversion charts and two cities belonging to two countries yearly join together for a "Two Flags Art Festival."

A large percentage of the population of Douglas is Mexican-American and traffic between here and sister-city Agua Prieta, Mexico, is mostly local.

But recent devaluation of the Mexican peso has stunned the normally vigorous trade here, and three Mexican nationals who jumped the fence west of this copper-smelting town Aug. 17 didn't get a warm reception.

Bernabe Herrera Mata, 21; Eleazar Ruelas Zavala, 24, and Manual Garcia Loya, 25, limped five miles back to a hospital in Agua Prieta and told authorities they were beaten and tortured while looking for farm work.

A Douglas businessman and rancher, George Hanigan, was indicted Aug. 27 by a Cochise County grand jury, along with his sons, Patrick, 22, and Thomas, 17.

Superior Court Judge Anthony Deddens bowed out of the case, citing a personal friendship with the elder Hanigan, and Pima County Superior Court Judge J. Richard Hannah of Tucson is stepping in.

The Hanigans, one of whom reportedly was victimized by burglars shortly before the incident, face 14 counts of kidnaping, assault and robbery.

"We've had a lot of burglaries in that area near the Hanigan ranch)," said Cochise County Sheriff's Detective Frank Gonzales, "and a lot of them have been done by aliens."

Although Douglas does not have as much illegal alien traffic as Yuma because of a tighter job market here, the U.S. Border patrol caught 4,585 illegals here last year, said Edward T. Blankenship, agent in charge.

Many illegal aliens work in the farm valley northwest of here, the agent said. "We check them (farms) all the time," he added. "Yesterday some men went up there and found eight; last week they got 16 aliens on several different ranches."

The stereotyped "wet back" of the alien is sometimes muddy shoes and trousers, Douglas Police Sgt. Roy Pischer said.

Ability to spot illegals "comes from experience," he said. "You can tell, for instance, they kind of stick out. If his shoes are muddy and his pant legs are wet and muddy, he might have been in the ditch (at the border)."

No figures are available on the number of aliens who burglarize Douglas homes, although street talk says there's a great number of alien-committed burglaries.

And Pischer said there are enough that "we classify by a 'method of operation' such as done by an alien perpetrator."

Signs are small Mexican matches on the floor, pillowcases taken to carry out the loot, and a raided refrigerator, he explained.

Two or three year ago, police investigated a "ring of 10 to 12 juveniles, male and female, about 9 to 13 or 14 years of age, who were mainly shoplifters, but did commit burglary on occasion," Pischer said. "I'm sure that the littlest one on this list is now the ringleader of another gang."

There's trouble within "the system," too, admits Chamber of Commerce executive director Pat Shannon.

"From a business standpoint, you play with two countries' sets of rules and it broadens your business experience considerably," he said. "We find it very enjoyable to work with our Mexican counterparts who are interested in the free enterprise system in as much as the different rules for commerce permit."

But Mexico's decision to allow the peso to "float," has caused "quite a reduction in business," Shannon said, because Douglas serves as a shopping center for parts of the Mexican state of Sonora.

"Things will get better as Mexican purchasers become less frightened as to the value of their pesos, and adjust to the fact that it's been leveled off at the current level" of under five cents, compared with eight cents a month ago, Shannon said.

Meanwhile, Shannon said, "We're going to wait it out.

"There have been some employes laid off, of course, because stores who catered most of their trade to the Mxican national were hurt the worst, and have had a 30 to 50 per cent drop in income."

The alleged tortures "didn't affect our trade at all," Shannon said, although a boycott was reported shortly afterward at an ice cream store whose franchise was held by Hanigan.

"We prefer not to comment on that," said Shannon. "It hasn't been settled in the courts yet and that's where it belongs."

Devaluation of the peso has resulted in "no bitterness toward the United States," the Chamber official added. "We have found that the Mexican who has continued to buy has a good attitude and our relations are very good."

—

[From the September 29, 1976 issue of The Daily Sun, Flagstaff, Ariz.]

Douglas: Portrait of an Arizona Border Town

(By Carol Trickett)

Douglas (AP)—In the southeast corner, of Arizona, sales clerks speak Spanish, the Chamber of Commerce has printed peso-conversion charts and two cities belonging to two countries yearly join together for a "Two Flags Art Festival."

A large percentage of the population of Douglas is Mexican-American and traffic between here and sister-city Agua Prieta, Mexico, is mostly local.

But recent devaluation of the Mexican peso has stunned the normally vigorous trade here, and three Mexican nationals who jumped the fence west of this copper-smelting town Aug. 17 didn't get a warm reception.

Bernabe Herrera Mata, 21; Eleazar Ruelas Zavala, 24, and Manuel Garcia Loya, 25, limped five miles back to a hospital in Agua Prieta and told authorities they were beaten and tortured while looking for farm work.

A Douglas businessman and rancher, George Hanigan, was indicted Aug. 27 by a Cochise County grand jury, along with his sons, Patrick, 22, and Thomas, 17.

Superior Court Judge Anthony Deddens bowed out of the case, citing a personal friendship with the elder Hanigan, and Pima County Superior Court Judge J. Richard Hannah of Tucson is stepping in.

The Hanigans one of whom reportedly was victimized by burglars shortly before the incident, face 14 counts of kidnaping, assault and robbery.

"We've had a lot of burglaries in that area (near the Hanigan ranch)," said Cochise County Sheriff's Detective Frank Gonzales, "and a lot of them have been done by aliens."

Although Douglas does not have as much illegal alien traffic as Yuma because of a tighter job market here, the U.S. Border patrol caught 4,585 illegals here last year, said Edward T. Blankenship, agent in charge.

Many illegal aliens work in the farm valley northwest of here, the agent said. "We check them (farms) all the time," he added, "Yesterday some men went up there and found eight; last week they got 16 aliens on several different ranches."

The stereotyped "wet back" of the alien is sometimes muddy shoes and trousers, Douglas Police Sgt. Roy Pischer said.

Ability to spot illegals "comes from experience," he said. "You can tell, for instance, they kind of stick out. If his shoes are muddy and his pant legs are wet and muddy, he might have been in the ditch (at the border)."

No figures are available on the number of aliens who burglarize Douglas homes, although street talk says there's a great number of alien-committed burglaries.

And Pischer said there are enough that "we classify by a method of operation' such as done by an alien perpetrator."

Signs are small Mexican matches on the floor, pillowcases taken to carry out the loot, and a raided refrigerator, he explained.

Two or three years ago, police investigated a "ring of 10 to 12 juveniles, male and female, about 9 to 13 or 14 years of age, who were mainly shoplifters, but did commit burglary on occasion," Pischer said. "I'm sure that the littlest one on this list is now the ringleader of another gang."

There's trouble within "the system," too, admits Chamber of Commerce executive director Pat Shannon.

"From a business standpoint, you play with two countries' sets of rules and it broadens your business experience considerably," he said. "We find it very enjoyable to work with our Mexican counterparts who are interested in the free enterprise system in as much as the different rules for commerce permit."

But Mexico's decision to allow the peso to "float," has caused "quite a reduction in business," Shannon said, because Douglas serves as a shopping center for parts of the Mexican state of Sonora.

"Things will get better as Mexican purchasers become less frightened as to the value of their pesos, and adjust to the fact that it's been leveled off at the current level" of under five cents, compared with eight cents a month ago, Shannon said.

Meanwhile, Shannon said, "We're going to wait it out.

"There have been some employes laid off, of course, because stores who catered most of their trade to the Mexican national were hurt the worst, and have had a 30 to 50 per cent drop in income."

The alleged tortures "didn't affect our trade at all," Shannon said, although a boycott was reported shortly afterward at an ice cream store whose franchise was held by Hanigan.

"We prefer not to comment on that," said Shannon. "It hasn't been settled in the courts yet and that's where it belongs."

Devaluation of the peso has resulted in "no bitterness toward the United States," the Chamber official added. "We have found that the Mexican who has continued to buy has a good attitude and our relations are very good." However, Blankenship said, the population of Mexico continues to grow faster than the number of jobs, and aliens continue to cross the border.

"I've been with the patrol 19 years, on both borders, and I've never seen anything like that, not on either border," he said of the alleged torture.

Pischer said, "I don't know of any other incident like this one, not in as long as I can remember."

—

NEW PESO DEVALUATION HITS BORDER TOWN HARD

Businesses in the Mexican border town of San Luis, Ariz, took another beating last week as the Mexican peso dropped another 34% in the latest move to "float" Mexican currency.

"It's dead over here," one San Luis businessman said yesterday morning.

"It's terrible," another said.

"It's definitely hurt our business," said Lino Veloso, owner of Imperial and King Markets. However, Veloso said the latest devaluation hadn't caused the panic situation the first devaluation early in September brought on.

The condition of the peso improved slightly from the time the announcement was made last week and the beginning of this week.

"We're quite pleased with that," Veloso said.

The value of the peso dropped to 26.5 per dollar last Wednesday, but was back up to 25.58 yesterday. The rate had stabilized at 20.1 following the first devaluation Aug. 31. Prior to that time the peso had traded at 12½ to one for 22 years.

The "floating" last week came as a surprise to merchants on the border as well as Mexican citizens.

Russ Jones of R.L. Jones Custom Broker House in San Luis said he heard a Mexican radio announcement Tuesday evening saying the peso was expected to be devalued again in the "near future." The announcement was made officially before banks opened Wednesday morning.

Although the Mexican government had announced Aug. 31 that the peso would "float" on the world money market, the Banco de Mexico, the equivalent of the U.S. Federal Reserve Bank, had been supporting the peso for almost two months at a fixed price near 20 pesos per dollar.

The latest move, announced through the national bank president, is part of an effort to stem a continued massive flight of Mexican money abroad.

The new "float" hit border business particularly hard just as they were readying for the holiday sales season. Merchants said their business was just beginning to recover from reverses brought about by a new Arizona sales tax regulation in August and the earlier devaluation. They had also claimed harassment of Mexican nationals at the San Luis port of entry this fall hurt already sagging sales.

The border situation has eased, merchants said last week, and business was back up within 30% of last year when the new devaluation was announced.

"It's dried up business like you'd never believe," Bruce Jackson, manager of Western Auto in San Luis said Friday. "People are still in shock and right now no one is spending."

He estimated it would take his business 10 to 12 weeks to recover.

The San Luis Merchants Assn. lost no time in assessing the situation Wednesday and putting a sales campaign that will include give-aways to shoppers in effect.

All merchants were taking a loss of about 1½ pesos on the dollar last week, and the association plans to give a 10,000 peso donation to a Mexican school in a goodwill gesture later this year.

—

Sales Increase for Merchants

Douglas—After weeks of bad economic news following devaluation of the Mexican peso, merchants say they are now witnessing a turn-around in local retail sales.

Swain Chapman said he, for one, experienced a sales increase about two weeks ago. Chapman, who manages the Kress store, made his observation at the monthly board meeting of the Douglas Chamber of Commerce Friday.

Sales are still off about 15 per cent, but he can live with this percentage, Chapman said. And he looks for further improvement in the days and weeks ahead as the peso appears to have settled at about 20—$1, or 5 cents each, compared to 8 cents in September.

Other merchants, who were not at the meeting, echoed Chapman's observations about a retail sales turn-around. Some even reported sales increases and Sonoran license plates are once again liberally sprinkled among vehicles parked on downtown streets.

Three busloads of shoppers from Nacozari visited Douglas recently Chapman noted that Nacozari shoppers frequently spend over $100 each.

Chamber President Paul Knowles told the board that plans are continuing for a goodwill visit to Macozari, which someday may become known as Douglas' "Sister city." It has been common practice for cities and towns in Arizona and Sonora to have "sister" counterparts in their respective states. Tombstone, for instance is Agua Prieta's "sister city."

During 1977, Knowles reported that the chamber will be concentrating on tourism, downtown development, twin plant operations and stressing the economic importance of continued operation of the Douglas Reduction Works of Phelps Dodge Corp. He said Gerg Armitage will head a new membership drive in February.

Knowles and Armitage met with representatives of the South East Arizona Governments Operation (SEAGO) recently. They explored ways SEAGO might assist in community and economic development, including federal funding for recreational projects.

Chamber Manager Pat Shannon said he and George Steele attended an economic development conference with Gov. Raul Castro in Phoenix. Shannon said one outgrowth of this meeting will be an effort to interest movie-making concerns in using the Douglas area for location shooting. Two movie sight representatives have already surveyed the Douglas vicinity, Shannon said. In Petaluma, Calif., where he formerly worked, Shannon said movie outfits spent some $50,000 a week while doing filming there.

In other economic news, Shannon said two twin plant prospects and three new retail establishments were exploring the possibility of locating in Douglas.

Director Art Atonna, who is also a member of the Douglas School Board, discussed fiscal problems facing the school district in the year ahead.

He said an "austerity budget" which had been drawn showed a $160,000 deficit. This budget covered set increases for teachers, but no across the board pay raises. Against this possible deficit, the district will have only $81,000 in additional income, Atonna pointed out, only slightly more than half the amount needed to meet the "austerity" budget.

One problem, Atonna said, is the matter of declining enrollment. The number of students had dipped about 150, but since this decline is spread throughout the system, it is not possible to eliminate any teachers or classes. School income is based in large part on average daily attendance.

One solution, according to Atonna, would be a budget override election which, if approved by the voters, would provide $530,000. This would allow a 7 per cent pay increase and cover a number of other educational needs, Atonna said. In response to a question, Atonna said the board did not know at this time what the tax rate would be if the budget override succeeds.

[From an editorial entitled "Both Sides of U.S.-Mexico Border"]

Peso Devaluations Hurt 10 Million

Ciudad Juarez, Chihuahua—Two peso devaluations in the midst of Mexico's worst monetary crisis in decades have brought hardships to an estimated 10 million Americans and Mexicans who live and trade on both sides of the border.

Official figures show retail sales along the border have dropped 5 to 26 per cent, depending on the area. Merchants in dozens of communities on both sides of the border either went broke or are about to fold.

Enrique Moreno Alvarz, general manager of the Ciudad Juraez Chamber of Commerce, predicts unemployment here will rise another 25 to 30 per cent if remedies are not found. One of every five of this city's 100,000-member labor force is now out of work.

Since Aug. 31, President Luis Echeverria's administration has been forced to devalue the peso 100 per cent—from 12.50 to 25 to $1—in an attempt to halt the flight of capital.

About the only thing the devaluations did was breakup a huge United States to Mexico smuggling industry, estimated by Mexican banking sources at $1 billion to $3 billion annually.

The negative effects along the 1,966-mile border are so acute that President Ford last week promised federal assistance to 36 counties on the U.S. side. Ford said last Monday in San Diego that he is moving to designate the counties in California, Arizona, New Mexico and Texas as the "Southwest Border Economic Region"—a move that merchants catering to Mexican trade have been demanding for weeks.

For many years, Mexicans shopped American because goods were cheaper and better.

That was suddenly reversed by the devaluations, making American goods twice as expensive for the peso-earning Mexican and many Mexican goods twice as cheap for American visitors with dollars to spend.

That killed smuggling but also killed the daily shopping that hundreds of thousands of Mexicans did legally in the United States. Now hundreds of thousands of Americans cross the border daily to take advantage of the lower prices in Mexico.

91-139—77——8

They go to get a haircut, to the beauty parlor, to get their dental work done, to buy eyeglasses, beef, cooking oil, sugar, some types of canned goods, rum and tequila.

But Mexican community leaders claim the American shopper influx is not enough to offset the depression brought by the devaluations Aug. 31 and last Wednesday.

They say many Mexican merchants with dollar debts and Mexican currency income are going broke and that since goods are cheap in dollar terms they do not bring in enough dollars to compensate.

A typical example of the effect of the devaluations is El Paso, a city of nearly half a million with an economy closely tied to Ciudad Juarez. About a million Mexicans, formerly did a fifth of their shopping in El Paso, mostly for furniture, home appliances, TV and radio sets, automobiles, clothing, toys, milk and groceries. Much of it was done through dollar installment plans.

"Now we don't go anymore," said Rosalia Hernandez, a Ciudad Juarez divorcee. "It's twice as expensive, even though Mexican goods have also gone up in price, but not as much. My teenage son and I used to go on weekends and have dinner and see a movie, too."

The El Paso Chamber of Commerce reported a 5 per cent drop in retail sales after the first devaluation—a loss to merchants of $5 million a month out of a $100 million average. But firms catering to the Mexican trade lost 60 to 90 per cent, it said. The chamber doesn't have figures on how much sales have dropped since the second devaluation.

But Moreno Alvarez says the money tourists and American shoppers are spending is not half enough to cover losses suffered by Ciudad Juarez merchants.

Stores are reporting sales are up 40 to 50 per cent but many still have dollar debts to pay for their American merchandise.

The number of persons crossing from Ciudad Juarez to El Paso dropped 50 per cent to a million in September, while crossings the other way increased 30 to 40 per cent, according to the local Mexican tourism director, Jose Quevedo Treviso.

[From the November 27, 1976 issue of the Arizona Daily Star, Tucson, Ariz.]

The Devaluation Blues Sung by Most Nogales Merchants

(By John Woestendiek)

Nogales, Ariz.—While a smiling mannequin models a sports coat for customers who are not there, a frowning clerk straightens rows of merchandise that are not crooked.

Except for the clerk and the dummies, the downtown Nogales store is empty. Like many others, it has laid off employes, sliced monthly orders and is hungry for the Mexican trade upon which it once thrived.

Merchants large and small are singing the peso devaluation blues, and any retailer who says he doesn't know the tune is lying.

"Nobody's made any money here since Sept. 1," said Lee Rodriguez, who has watched business at his coffee shop drop to the point where he must put in $1,000 of his savings every month "just to hold on."

"If you break even, you're doing great," he said.

He has reduced his 14 employes to five and serves about half as many meals as he used to. "If we were only off 25 per cent, I'd be whistling Dixie," he said.

Next door to Lee's Cafe, about half a block from the border, a fast-food stand has closed its doors and soaped its windows, an early casualty of the peso devaluation.

Basically, what happened is this: The Mexican citizen who came across for a 40-cent burrito found one morning—Sept. 1—that it no longer cost five pesos, but eight pesos. Later, after the second devaluation, that same burrito cost 10 pesos.

His money was also worth less in Mexico, where prices were going up. So he came to the conclusion he could live without his mid-day burrito and, for that matter, any other luxury item he could buy in the United States.

The result is a 1,810-mile-long doldrum from Brownsville, Tex., to San Diego, with the smaller cities hurting the most. Nogales is considered to be the hardest-hit Arizona city.

Here alone, about 400 people have lost their jobs after being laid off or having their hours cut to the point that they could not make enough money to get by.

Three businesses have closed, at least one man is making a living buying and selling pesos, and the only place you'll find a line is at the unemployment office.

The majority of residents here are well attuned to the problems in Mexico. Walk in almost any store and you hear mention of Mexican President Luis Echeverria—if there are enough people inside for a conversation.

In addition to the lunch stand, a recently opened record store and a long-established furniture store have closed.

For Ray Rivas 22-year-old manager of Rolling Stone Records, it meant an abrupt end to a beginning career. Rivas opened two weeks before the devaluation, stayed open for four months and is presently unemployed.

In eight months, he said, he plans to reopen the shop and try again. The closing of the record store—the only one in Nogales—was unusual because the business was not heavily dependent on Mexican trade.

"Nogales, Ariz., was supporting me," Rivas said, "but it got so bad with the layoffs on this side of the border that nobody bought anything. They were just looking, and I can't live on looks."

"It wasn't a steady decrease; things just went stagnant," he said.

Oscar Stevens bailed out of Nogales in October, after "90 per cent of my business went down the drain." He moved his warehouse furniture store, El Gigante, to Tucson.

"Everybody was saying to be optimistic. I saw the empty streets, and I couldn't feel it in my heart. I told my wife we were gooing to have to start from scratch.

"It is very sad. You can see small fortunes going down the drain there. What I pity most is the little man who was starting a new life. I could feel the uncertainty of both merchants and workers," he said.

All that remains of El Gigante in Nogales, opened in 1964, is some left-over merchandise and a catalog from which customers can order.

Optimism, in varying degrees, remains in the city, though, with most businesmen placing their hopes on incoming Mexican President Jose Lopez Portillo.

The protest by merchants in Nogales, Son., spurred a slight increase in business Wednesday, and yesterday appeared to be a fair day for retailers, possibly because of the Thanksgiving holiday.

"This block is full of parked cars now," one merchant pointed out. "But usually there are only about four cars parked on the entire block. And two of them belong to employes."

—

[From a November 5, 1976 issue of a Phoenix, Ariz. daily newspaper]

BORDER MERCHANTS REPORT HEAVY LAYOFFS: SYMPOSIUM ON PESO DEVALUATION

(By Robert Reilly)

Douglas—The latest devaluation of the Mexican peso has cut retail business in Arizona border towns to recession-level lows, a symposium was told here Thursday.

"Since September, our payroll has been reduced by 39 per cent," said Harlin Copin, part owner of 12 retail stores in southeastern Arizona. "In August, we employed 453 persons. Now we employ 345 persons and have laid off all our part-time help. We're being squeezed out and we need help."

Copin was one of several to speak to a group of 200 persons on the peso devaluations. The meeting was held at Cochise College.

The second devaluation of the peso occurred Oct. 27. That and the first one, which occurred after the peso was floated in international monetary markets Aug. 31, has resulted in a devaluation of more than 50 per cent.

Before Aug. 31, the rate was 12.5 pesos to the dollar. Wednesday's rate was about 24.5 pesos to the dollar.

George Uribe, president of the Nogales Chamber of Commerce, told the symposium the devaluation has caused retail business in Nogales to decrease between 50 and 60 per cent.

"Most part-time retail workers in Nogales have been released," he said. "More than 300 persons have filed for unemployment insurance. Disposable income has been drastically reduced."

When Mexico devalues its currency, its citizens stop or curtail their spending in the United States because goods and services cost more.

Residents living adjacent to the U. S. border, such as in Nogales and Agua Prieta, Sonora, now pay about twice as much for goods in the United States than they did in August.

Gov. Raul Castro told the group there are some things businessmen can do to help shake off the economic slump. He advised them to:

Reduce the margin of profit on goods and services sold from perhaps 20 per cent to 10 per cent and make up the difference by selling more.

Extend credit to good customers, promote layaway and other easy-pay programs to increase business and encourage American tourists to visit Mexico. He said the dollar is now worth a lot more and spending it there will help accelerate Mexico's economic recovery.

A number of persons at the symposium said the Arizona legislature should remove the 4 per cent state sales tax levied on Mexican nationals because it increases the cost of American goods now going begging for buyers.

Castro said he favored removing the sales tax but noted that the state's income also is down. "I don't think the legislature will remove the tax if revenues don't improve," he said later.

Castro noted that President Ford approved the creation of the Southwest Border Economic Commission composed of the governors of Arizona, California, New Mexico and Texas, to study the problems of devaluation and illegal aliens.

Several persons suggested that border towns cooperate in attracting more tourists, solar-energy products and new businesses to offset the effects of devaluation. They urged expansion of the twin-plant system along the border.

Tom McSpadden, a vice president for Valley National Bank, said Mexico's monetary problems were as much psychological as they were economic.

"This is a simplification, but the slide of the peso will stop when buyers outnumber the sellers and this will occur when people regain confidence in the Mexican economy," he said.

A crisis of confidence exists in Mexico because there is less than a month before the inauguration of the new administration of President-elect Jose Lopez Portillo, he said.

There also has been a plague of wild rumors in Mexico City, such as a plan to freeze personal bank accounts to prevent the peso from being taken out of the country and exchanged for foreign currencies such as dollars and Swiss francs.

Speakers expressed hope confidence will be restored when Lopez Portillo takes office Dec. 1 and announces his economic plans.

—

[From the December 1, 1976 issue of the Nogalez Intern, Nogalez, Ariz.]

IF BORDER TO SURVIVE, MUST ACT FAST, MERCHANTS TOLD AT SECOND PESO CLINIC

(By Daphne Overstreet)

If the Arizona border communities are going to survive as economic entities, they are going to have to do something in a hurry, Fred Mulcahy of Cochise College said.

Mulcahy, who organized the Dec. 3 workshop at the college on the peso devaluation, said border businessmen decided the problem had to be treated as a border problem.

"It isn't a Nogales problem or a Douglas problem. It's a border problem," he said. "We have to do something as a whole group, and we have to do it in a hurry. The economy is down, but it doesn't necessarily have to be."

Mulcahy said ways to improve the cash flow were discussed during the workshop.

"The first thing we have to do to get cash flowing again is to drop prices drastically. We have to do anything we can to attract the Mexican trade. There are some things not available on the Mexican side, but Mexican shoppers are so fearful of the peso that we have to go get them, if necessary, so they'll come."

MEXICAN SURVEYS

Mulcahy explained that more promotions and more advertising were needed to improve business. He also suggested that surveys be made to determine what goods Mexican consumers want and need. He pointed out that such a survey had never been made.

There are other untapped sources of income for the borderlands, according to Mulcahy. One of them is tourism.

"We need to get people here from Tucson and Phoenix—the conventioneers and winter visitors."

He said Cochise County was working on a number of attractions to bring tourists to help boost the county's economy.

Industrial development can also be attracted to the border communities.

"Industrial development is cheaper now than ever before. Due to the devaluation, wages are 16 per cent less (for workers in Mexico)."

BORDER C OF C

He suggested forming a border chamber of commerce group that would promote industry and tourism in the area of southern Arizona.

"The devaluation maybe shook some sense into us. It is a marvelous opportunity for industrialists because labor rates are low. Why make things in Japan or Taiwan when they can now be made just as cheaply here. It can be a wonderful thing for both the United States and Mexico," he said.

"We should grasp this opportunity to advertise in a big way in the Northeast and the Midwest," he added.

Sixty-seven people attended the day-long workshop, four of whom were Nogaleans. Mulcahy said he invited nearly 70 people from the Nogales area, but attendance was down from the first meeting held in November. About 40 Nogales businessmen attended the first meeting along with Governor Raul Castro and officials from state economic offices in Phoenix.

NOGALES EFFORT

Asked what steps Nogales will take to attract tourism, Charles Fowler, executive director of the Nogales-Santa Cruz Chamber of Commerce, said, "We have the train, the highway and Nogales, Son. We do what we can to attract tourists, though we don't have a special thing."

Fowler said the chamber of commerce is planning to organize tours from Nogales, Ariz., south.

"We feel the recent publicity about Mexico has frightened people, but if they could go as a group tour, they would travel."

He said the organized tours would begin after Jan. 1, and would be set up in such a way that tourists would be encouraged to spend time and money while in Nogales, Ariz.

About 18 per cent of all the visitors who come into Arizona visit Nogales. Fowler said the chamber of commerce is going to launch an all-out effort to attract more of the tourist trade to southern Arizona.

Already the tourism picture is anything but gloomy. Fowler said on Monday alone 62 people walked into the chamber office, 19 called and 15 letters were received. All were interested in Nogales, scenic points in Santa Cruz County or information about Mexico.

Fowler said if a border chamber of commerce was formed, "we would be most interested in participating." He added that he would also find out how to attract industrialists to our area. "We are definitely for it."

—

[From the December 2, 1976 issue of the Tucson Daily Citizen, Tucson, Ariz.]

TWIN PLANTS REAPING WINDFALL FROM PESO

(By Jeff Smith)

Nogales—The recent peso devaluations have brought operators of some 75 twin-plant manufacturing operations along the Arizona-Mexico border an unexpected windfall: Substantial savings in salaries to Mexican workers.

Robert R. Carrier, twin-plant manager of Molex Inc. of Lisle, Ill., and president of the Twin-Plant Manufacturers' Association, said the savings range from 15 to 20 per cent.

He said a larger potential savings was offset in September by a Mexican government-ordered 23 per cent average wage increase, nationwide, and said another mandatory pay increase of 15 to 20 per cent is anticipated in January.

"The general instability of the Mexican economy has been kind of detrimental to the morale of our workers, but I expect the January salary increase will offset that," he said. "From a purely business aspect for us, I'd say this has been beneficial."

The plant operators employ approximately 10,000 Mexican workers in the Nogales and Douglas-Agua Prieta, Son., area.

It works this way: U.S. manufacturers of goods requiring considerable semi-skilled man-hours in assembly operate twin plants directly across the border from one another.

U.S.-manufactured components cross the line into Mexico where they are put together by less-expensive Mexican labor. The finished goods come back across to the U.S. side to the other half of the twin—essentially store-and-ship warehouses that forward the goods to home offices for wholesale distribution.

The Mexican workers are paid in pesos, and more important, out of U.S. dollar bank accounts; twin plant operators have not made the mistake their counterparts in the produce business did.

The latter traditionally operate with two bank accounts, one in dollars and one, in Mexico, in pesos. The produce importers were caught unaware by the first peso devaluation in August, and lost considerable money in their peso accounts.

"We will be able," said Carrier, "to operate in 1977 on the same budget we ran in 1976. And any time you can do that, you're doing pretty good. Basically the effect of this situation has been an incentive for us to regenerate our plans for expansion."

[From the December 23, 1976 issue of a Phoenix, Ariz. daily newspaper]

MEXICO SAFE FOR TRAVELERS

In a press conference held at the Phoenix Press Club, Mr. Frederick H. Sacksteder, Jr., the American Consul General at Hermosillo, Sonora, Mexico, stressed the importance of American travelers in Mexico not only from an economic standpoint, but from a cultural one. Mexico, Sacksteder said, graciously welcomes the American tourist.

"I strongly believe in the importance of interaction between neighbors, between the United States and Mexico. The simple economic aspects are obvious. But beyond the economics, there is a rewarding and satisfying experience to be gained by Americans when they travel to Mexico," he said. "That is the adventure of visiting a foreign country, getting to know its people, its culture, its tradition and its way of life."

Sacksteder asked American who are considering travel south of the border this holiday season to put the recent reports of unrest in Mexico into perspective.

"There are serious misunderstandings that need to be cleared up," he said. "In the past few months, Mexico has suffered from very bad press in the United States and people are concerned that this is having a serious effect on the desire of Americans to travel to Mexico. But travel in Mexico is as safe as it has been in the past.

"Mexico has recently gone through a difficult economic transformation but the economy is fundamentally very strong and Mexico will certainly survive," he said.

"This transformation was marked with isolated incidents of social unrest but these incidents were, indeed, isolated and not over-all or national incidents by any means. Americans can continue to expect enjoyable vacation in Mexico during the upcoming holiday season."

Asked what advice he would give Americans planning to vacation in Mexico, Sacksteder said he would offer essentially the same common sense advice he would give travelers in the United States. "In addition, I would remind the

American tourists that the U.S. insurance is not valid in Mexico. The licensed Mexican insurance companies are reputable and offer prompt and courteous service.

"Mexico has made a concentrated effort to 'professionalize' its tourist officials in order to encourage tourism from the United States. The highway system has greatly improved in recent years and the flow of tourist traffic in the State of Sonora, for example, is now limited by only one control point. The new President, Jose Lopez Portillo has plans for an enlarged department of tourism to make Mexico an even more attractive destination for American travelers," Sacksteder said.

—

Four-County Employment Jolted by Peso

Santa Cruz County, already staggering under the highest unemployment rate in Arizona, has been hit the hardest of the four border counties by the devaluation of the Mexico peso, according to figures from the State Department of Economic Security.

OCTOBER FIGURES released today for the four show unemployment in Santa Cruz County jumped from 16.9 per cent in September 59 18.6 per cent in October after the first peso devaluation.

The statistics do not reflect the second devaluation which took place in November.

Retail trade in the Nogales area, which had already been suffering from what local merchants complained was an overly strict customs and immigration policy on admitting Mexican aliens to the Arizona side to buy goods, was hit heavily and many local layoffs resulted.

There were also some seasonal layoffs in manufacturing employment, DES reported.

THE OTHER border counties, which do not depend as directly on trade with Mexico, were not affected as strongly.

In Cochise County, unemployment dipped from 9 per cent in September to 8.9 per cent in October. The figures were seasonally adjusted, and unemployment in Cochise County has been relatively high since mining facilities were closed there.

Pima County remained unchanged with a 5.6 per cent jobless rate. DES said hiring in trade, government and industries in the metropolitan Tucson area offset any losses from border trade.

—

Goldwater Asks President for Millions to Help Mexico

(By Don Harris)

Sen. Barry Goldwater, R-Ariz., called on President Ford Friday to provide Mexico with enough financial aid to stabilize that nation's faltering economy.

Goldwater made the suggestion to Ford in a letter and said he believes the President "would feel in a friendly way on this." He said he has never discussed it with Ford.

The senator said he didn't know how much money it would take to bail out Mexico and its devalued peso but indicated it would be considerably more than the $50 million he said could have saved the peso several years ago.

"I talked with President Richard Nixon on that when it came up before and got a cold ear," Goldwater said.

Attempts Friday to reach the White House for comment were unsuccessful.

In his letter to Ford, Goldwater said the "peso is in trouble and we cannot allow her (Mexico) to be economically hurt." He added:

"She is one of the more important countries to us. so I urge you from the bottom of my heart as one of your last actions as President to offer Mexico what money she needs and give it to her so that your administration can go down as one which saw the importance of Mexico and showed a willingness to help her."

Goldwater wrote that Ford might question his (Goldwater's) interest in the matter and said: "Mind you, I was born in the state that borders Mexico and it is almost a part of me as is my own country."

Goldwater closed by urging Ford to act vigorously and wishing the President, Mrs. Ford and their family a Merry Christmas.

The peso has weakened repeatedly since it was floated on the world money market Sept. 1. For 26 years before that, the exchange rate was 12.5 pesos to the U.S. dollar. Since September, the value has dropped and currently stands at 19.5 to the dollar, making each peso worth about five cents.

Goldwater said in a telephone interview he didn't know what form the aid could take—a loan or a a gift.

"Whatever it would require to give Mexico a boost, I'm in favor of doing," he said.

The President has the authority to assist Mexico through the use of funds already available to him, Goldwater said. He could use funds appropriated for the World Bank or the International Bank.

In trying to explain an extremely complex economic situation, Goldwater said pumping U.S. dollars into Mexico would be similar to helping out a family that is unable to pay its debts.

The economic situation in Mexico is causing serious economic trouble for Phoenix businesses that rely on sources south of the border for their supplies, Goldwater said.

He conceded that he usually opposes foreign aid, but said:

"This is not the kind of aid I've been opposed to. We've shoveled money into countries which haven't needed it, and so some who have. But we've ignored our neighbors to the south.

"Mexico, in my mind, within this century, probably will be the most important friend to the United States and I don't think we've been doing much of a job for Mexico and Central America.

"I think we should do a better job."

—

[From the December 16, 1976 issue of the Arizona Republic, Phoenix, Ariz.]

Effect of Peso Crisis Unpredictable, Trade Group Told

(By Greg O'Brien)

Mexico's economy is in turmoil after two major Peso devaluations in three months, a Chamber of Commerce official said Wednesday night.

For more than 22 years, Mexican businessmen have relied on a parity between the peso and the U.S. dollar, and they are not accustomed to an unpredictable exchange rate, said Al R. Wichtrich, president of the American Chamber of Commerce in Mexico.

Speaking before the Arizona Trade Association at the Hyatt Regency, Wichtrich said Mexico must curb its inflation rate so the economy can get back on its feet.

"It's too soon to predict the precise effect the 'floating peso' will have on Mexico's economy," he said. "At issue here is whether Mexico can hold the inflation rate down so it is close to the inflation rate of the United States. This is important because the U.S. is Mexico's principal trading partner. It accounts for 60 per cent of Mexico's imports and exports."

He said the devaluation gives Mexican products a competitive edge in the U.S. market, but this advantage may be temporary, depending upon President Jose Lopez Portillo's success in keeping domestic production costs low.

In his speech before the trade association, Wichtrich talked about the peso devaluation's effect on Mexican business and the new administration.

He said the devaluation has an immediate effect on the tourist business. "For many years, the Mexican tourist has had a well-deserved reputation for spending money like an Arab potentate. This is all over now since it will cost him almost twice as much in pesos to travel and shop abroad."

However, travel to Mexico should be stimulated considerably, he added. Visitors will find that their dollars will stretch 30 to 40 per cent farther.

Wichtrich said tourism always has played an essential role in Mexico's balance of payments but in the past two years tourists have left fewer dollars behind.

He attributes this to several factors.

He said the media have tainted the image of how Mexico treats its tourists. The Jewish boycott of Mexico is another factor, he said. "This was unfortunate because it demonstrates a new phenomenon in international trade tactics where regional groupings or ethical interests use trade to accomplish political aims," he added.

A third reason, he said, is the treatment of U.S. prisoners in Mexican jails. "Most of these people are in jail for possession and transporting hard drugs. This situation understandably arouses human emotions, especially in the parents. However, one must realize that U.S. citizens in Mexico jails are not treated any worse than Mexican nationals."

Wichtrich said Mexico is in a period of crisis in which there is both danger and opportunity, "This is the backdrop against which Lopez Portillo moves to the front of the stage," he said, The new president has a strong background in law, administration and finance, he added. And it's reasonable for Mexicans to expect a general "belt-tightening."

"We can expect no essential change in direction under a new administration," he said, "but rather a change in pace, a shifting of priorities away from social reform, and a search for an equilibrium between what is absolutely indispenable and what is morely desirable. And this is where the role of the reformer gives way to the role of administrator."

—

U.S. AID TO MEXICO WOULD REDUCE INCENTIVE FOR THEM TO LEAVE

By John Parke Young*

The current economic crisis and social disturbance in Mexico cannot be dismissed as purely Mexican concerns, for what happens there is of considerable consequence to the United States.

Mexico, a democratic country with freedom of speech, is friendly to us, and it is important that it remain so.

Mexico is faced with problems that are difficult for it to cope with alone—problems that are potentially explosive for both countries.

Extreme poverty is leading to increased restlessness, political instability, guerrila activities and threats of more trouble. Some 25 per cent of the workers are unemployed; many others are underemployed. The devaluation of the peso and its decline to less than half its former value in dollars have cerated confusion and hardship among the people.

Mexico's leftist movement is growing. Land-reform measures, accompanied by vigorous owner resistance to expropriation and equally vigorous peasant demands for more land, are a further source of conflict. Fears of a Communist takeover are probably exaggerated, but they should not be ignored.

There has also been talk of a military coup from the right, which, if it happened, would be unlikely to resolve fundamental problems and might well result in suppressing freedom.

Such are the problems that President Jose Lopez Portillo inherited last week from Luis Echeverria Alvarez, his leftist-leaning predecessor—problems of such magnitude that in his inaugural address, he sought mainly to bolster Mexico's confidence in itself.

All those Mexican aliens pouring illegally across our borders are a symptom of the deep-seated dilemma facing Lopez Portillo. The great disparity in living conditions in the two countries leads inevitably to pressures for Mexicans to move north by one means or another.

Our attempt to stem the tide is not only a costly failure—they come across anyway—but it does not deal with the real problem, which is far more fundamental than, as many Americans assume, merely preventing aliens from competing for jobs in this country.

Indeed, we do a lot of loose thinking about the supposed harm caused us by the illegal alien. The simple assumption that more than a nominal inflow of Mexican immigrants is bad for the United States is largely unfounded. Do those

---

**John Parke Young is former chief of the State Department's Division of International Finance.*

illegal aliens take jobs which would otherwise be filled by U.S. nationals? In an immediate sense, there are occasions when that is the case, but it is far from the whole story.

Much of the work Mexican aliens perform is of an arduous kind shunned by American workers. Even so, the Mexican prefers it to the low wages and poverty back home. He is better off here, or he would not stay.

Moreover, as economists recognize, it is a fallacy to assume that there are just so many jobs to be filled—a fixed amount of work to be performed. If this were true, our population growth would have created intolerable unemployment.

Each person in this country—whether here legally or not—has not only two hands to work, but also a mouth to feed and a whole body to shelter. In other words, he not only adds to the work force but also to the amount of work that must be performed to meet the national demands his very presence creates.

Another charge against Mexican aliens is that they burden our welfare rolls and social services. Again, this is not the case. A recent Labor Department study concluded that illegal alients are actually paying more in taxes than they receive in social benefits. Whereas 73 per cent paid federal income taxes, only 0.5 per cent had been on welfare. In general, these aliens are a hard-working, law-abiding segment of our population who more than pay their way.

Yet, even though this country was built by immigrants from many countries, we cannot permit the uncontrolled entry of all foreigners who wish to come here. Mexico, however, is a special case. In fact, a major increase in the Mexican immigration quota is desirable for several reasons.

But the main concern for the United States in its relations with Mexico is not the illegal alien. Rather, it stems from the uncertain economic and social conditions prevailing within Mexico, which threatens its stability and our security.

When the Western European countries, devastated by war, were faced with social and political instability and threats to democratic institutions, the United States went to the rescue with billions of dollars in Marshall Plan aid.

Administering a major aid program along Marshall Plan lines should be a joint and cooperative undertaking, with special reliance placed on Mexican experts. The United States should not attempt to call all the signals; indeed, the undertaking should be essentially Mexican, but we should help to the extent that our help can be useful.

It would be a tragedy for both countries if we failed to do so.

—

Visit by U.S. Officials Prompted by Peso Drop

Three federal officials toured Nogales Tuesday during their inspection of the US-Mexican border to determine what can be done to improve the economy and relieve the depressed condition resulting from peso devaluation and other factors.

Mayor Arthur Doan met at the airport, Ambassador Hughson A. Ryan and Brandon H. Grove Jr. of the US Department of State, both of Washington, D.C., and Joseph A. Friedkin of El Paso, US head of the International Boundary and Water Commission of the US and Mexico.

The trio flew in a government plane from Brownsville to San Diego, stopping at border cities to visit with mayors. They are to wind up the tour with a flight from California to Mexico City where they will meet with their counterparts in the Mexican government.

In Nogales, the visitors inspected the international waste water treatment plant, taking photos, and the channels through which sewage had overflown from Mexico.

The new truck compound west of the city also was visited. Friedkin had participated in efforts to get the road gap completed on the Mexican side.

Mayor Doan said he told the officials the peso devaluation had caused a drop in the local economy of between 50 and 52 per cent.

In response to questions about the twin plant operation, he informed the trio that wage increases of between 16 and 23 per cent had helped close the currency gap.

"We in return had lowered our prices as much as we could," the mayor said he told them.

They also wanted to know about relations with the people across the line, whether people here were on good terms with those in Mexico.

"Of course, in our area we are on very good terms," said Doan.

The drop in the economy had been more severe in Lardeo, Texas, than here, the mayor learned. Laredo, he said, ranks first in tourist crossings along the border and Nogales second.

Nogales was was the only stop on the Arizona border for the officials who were here from 10 a.m. to about 2 p.m. City engineer Manuel Montano and alderman Anthony Serino also made the tour here.

—

PESO DECLINE COSTS 500 BORDER JOBS

Douglas (AP)—At least 500 full-time workers in Arizona border towns and hundreds of other part-time employes have lost their jobs because of the devaluation of the peso, an economic symposium has been told.

The State Department of Economic Security said Thursday 200 unemployment claims filed in Nogales alone have been attributed to the devaluation, while the total number of persons who lost their jobs in the border city may total 700, including Mexicans.

George Uribe, president of the Nogales Chamber of Commerce, said all part-time retail employes have been laid off.

Economic Security Director, John Huerta said business has fallen by about 40 per cent in Nogales and Douglas and effects also are being felt in Bisbee, Tucson, Yuma and Sierra Vista. Gov. Raul Castro recommended cutting prices and more generous credit terms as short-term solutions to luring Mexican customers.

Businessman Harlan Capin, who heads a 12-store retail chain, said 99 full-time and 150 part-time workers at his outlets in Nogales and Douglas have been laid off because of the devaluation, which began two months ago. The toll on part-time workers was 150, he said.

"We definitely need some relief," Capin said, calling for an immediate end to a four per cent sales tax imposed on Mexican customers.

Huerta said the devaluations, occurring in two steps, have merchants complaining about declining consumer confidence and a drop in the morale of the remaining employes.

Huerta also said unnecessary delays and reports of problems at the Yuma crossing have helped stem the flow of Mexican shoppers. He said in Tucson survey showed 91 per cent of the Mexican shoppers reporting needless border waits.

Little hope was spread by state officials, who said recovery might take as long as a year.

—

MEXICO'S PESO DEVALUATION NO BOOST TO ARIZONA TRAVEL SOUTH OF BORDER

Tucson—The devaluation of the peso is giving a boost to Mexico's tourism business, but the move toward local travel agents' newest bargain counter has not turned into a stampede.

Although the agents are expecting the depressed Mexican tourist business to increase in the coming months, they say that the devaluation has not had the impact it was expected to.

The peso was devalued by 40 per cent in August and many potential travelers expected a 40 per cent savings in hotel costs and other south-of-the-border travel expenses. The unsettling effect of the devaluation and the suspicion that prices—especially for tourists—might be raised quickly apparently has discouraged a big travel boom.

But now that the peso's ratio to the U.S. dollar has settled at 19 to 20 to one and the "peak season" for travel to Mexico is just around the corner, business is picking up at local agencies specializing in Mexican travel.

It's still cheaper to travel in Mexico now than before devaluation—but not 40 per cent cheaper, agents say.

Room rate increases were allowed after Oct. 1 and have been put into effect at many hotels. That reduces the potential savings 15 to 20 per cent. Some local travel experts are also encouraging their customers to go to Mexico before the year ends to beat more hotel rate increases recently authorized by the government.

But even with the "paradise for pesos" bargain cut in half, Mexico still represents "quite a bargain," the travel agents agree.

While the hotel rate increases will reduce the savings, "when the smoke clears, there'll still be around a 15 per cent savings over what it cost before the peso started floating," said Ken Moroney, district sales manager for Hughes Airwest.

"I think when people realize the peso is going to stay at 19 or 20, they'll start traveling to Mexico again," said Ruth Schuman, of George Hall Travel Agency. Noting that interest in travel to Mexico has begun to rise again after a long lull, she said many clients now are inquiring about current hotel rates there.

Antonio Marlin, of the Mexican Ministry of Tourism office in Tucson, said the peso devaluation is expected to benefit tourism, but feels it is too early to measure the effect.

Colleen Slater, a Tucson public relations representative for the Posada de San Carlos Hotel at San Carlos Bay, said the devaluation has brought lower prices at the hotel and that reservations are starting to come in from Arizona and from other states.

The posada's room rates dropped from a pre-devaluation price of $24 to $15 when the exchange rate dropped; the rate for the same room is now $20.

But at Don Quixote Tours, a Tucson agency that specializes in travel to Mexico, the effect of devaluation so far has been less than spectacular.

"I really thought people would start taking advantage of the situation, because it is a good time to go (to Mexico) from the economy standpoint. But September and October are a slow time for travel there," said travel agent Patricia De Castro.

In some instances, the peso's devaluation has resulted in minor business reverses for local agents. Agencies numbering Mexican citizens among their clientele have been hurt by cancellations due to the almost doubled cost of travel paid for in devalued pesos.

At Aeromexico Airline, whose local business depends largely on travel from Sonora and Sinoloa, boardings dropped 40 to 50 per cent following devaluation of the peso, said Raul Carrasco, southern Arizona manager for the airline.

[From the October 11, 1976 issue of the Arizona Daily Star, Tucson, Ariz.]

NOGALES FIGHTS DEVALUATION WITH BELT TIGHTENING

(By Judy Donovan)

Nogales, Son.—Except for the commerce that can count on the American tourist, the peso devaluation last month has caused hard times here for merchants and consumers alike.

"In my 14 years in business here this is the worst setback I've experienced, but I think I'll survive," said Alfonso Hijar, a market owner and Chamber of Commerce official.

The peso has fallen in value from 12½ to 20 to the dollar since the government decided early last month to float its monetary unit on the world money markets. Since then, it has been again tied to the dollar—but at the lower level.

Some measures taken in Nogales to ride out the crisis include:

Families are cutting corners on purchase of food and clothing to make wages stretch.

Merchants are planning big discount sales and advertising campaigns in Arizona media to attract more U.S. customers.

The Nogales mayor is accelerating plans to establish tourist attractions such as a dog racing track, a jai alai stadium and a ring for cock fights.

City government is seeking new avenues of tax revenue to assist its budget.

"We're having to tighten our belts but some don't have any belts left to tighten," commented Oscar Hijar, persident of the Nogales chapter of the National Chamber of Commerce. "They had to eat their belts when they got hungry."

Merchants say they have dropped prices on some merchandise from 40 to 60 per cent to enable their customers to keep buying with deflated pesos. Helping the situation is a 23 per cent pay increase for all workers ordered Oct. 1 by a joint board of labor, government and business representatives. Another increase is expected in January.

The government has also placed a price freeze on certain food staples, including beans, corn meal, oatmeal, sugar, rice, cereals and coffee.

But it's not enough yet to help medium- and low-income wage earners, Nogales businessmen believe.

Prices that wholesalers charge are expected to go up from 10 to 30 percent in the next few months, said Hijar, and stores will have to raise prices. Much of the canned goods, raw milk and fresh chickens and other meats they sell are purchased wholesale in the U.S. under a special agreement, he explained. But Mexican customers are passing them by now as too expensive.

The majority of Nogales residents used to buy their food, clothing, appliances and other items on the U.S. side where they were cheaper. Now they've abandoned the U.S. stores, where pesos are taking a beating, and are buying in Mexico.

Even so, the Mexican owners complain of shrinking profit margins, largely because of the government's price freeze.

"We're conscious that it's a benefit to the general population and it's a situation that demands controls," said one market operator.

Businessmen who took short-term loans in dollars from U.S. banks before the devaluation are finding it hard to meet their repayment terms because the dollar value stayed the same while their income from pesos has shrunk.

Many Nogales residents, attracted to the border by jobs at the city's industrial park, bought furniture and appliances on credit in stores in Tucson and Nogales, Ariz. They're having to scrimp on food and other necessities to make the payments now.

City government was not as hurt by the devaluation as other border communities. In Tijuana, public works had to be curtailed and an order for fire equipment from the U.S. had to be cancelled.

"Luckily, we don't have a high indebtedness like other cities," said Mayor Hector Monroy Rivera. "Our economic situation has not been buoyant enough to pave streets or do big things. The city budget is only $600,000 a year."

But, to attract tourists and increase revenues, the mayor has embarked on an intensive program to clean up city streets and to prevent abuse of tourists, he said.

He plans to enforce a long-standing law that requires vendors' licenses for small businesses in private homes.

He'll also seek a percentage of federal tax money the government gets from manufacturers of liquor sold in Nogales.

—

[From the January 12, 1977 issue of the Christian Science Monitor]

Controlling America's Illegal Alien Flood

The torrent of illegal alients flowing into the United States from Mexico and other countries south of the American border remains a matter of urgent concern. One estimate is that there are at least eight million illegal immigrants in the U.S. today—and perhaps several million more. The eight million figure just happens to be very similar to the number of Americans listed as unemployed at this time.

The obvious need is to curtail as quickly and firmly as possible this runaway influx of unlawful entrants. A high-level report, drafted by a panel of experts that included Attorney General Levi and other Cabinet officials, has just been released by the Justice Department in Washington. It throws a spotlight on the problem, and concludes it is time to rethink U.S. immigration policy as a whole. After all, the number of illegal immigrants per year now far outnumbers lawful alien entrants.

Among the report's recommendations is one for a limited amnesty for those already long in the United States illegally. This would wipe the record clean for all who arrived before July 1, 1968, nearly nine years ago, thereby greatly reducing the total number of illegals in the country. This suggested change makes sense, since the alternative would be a big roundup of aliens for deportation, which probably is not practical, and which the report finds would be disruptive and inhumane as well.

Some argue that illegal aliens come in because there is a valid need for their labor. Such persons, it is claimed, are willing to work harder than American citizens for the same pay, and they will accept jobs Americans spurn. But considering the high unemployment rate for U.S. citizens in recent years, we feel the available jobs ought to go to Americans, not illegal aliens, even if the end result is everyone paying a little more at the checkout counter. If the pay is really too low for Americans to accept, then the agricultural or industrial wage scales need looking into.

In any event, the report properly points out that U.S. immigration policy should be geared to the nation's need for labor skills. If more foreign labor genuinely is needed, it ought to be let in legally, not over the fence, so to speak, where it can too easily be exploited. But if the foreign workers are only wanted because they accept sub-par payment and thereby prevent American citizens from getting jobs, then that is justification for clamping down hard.

Another problem is what to do about employers who knowingly hire illegal aliens. At present, employing workers without documents is not illegal; a bill to outlaw this practice is still stuck in the Senate. A sensible recommendation is that stiff penalties ought to be enforced not only against employers but also against those traffickers who bring in and shelter illegal immigrants, for people-smuggling has become a well-organized, lucrative business. Meanwhile it should not be too much of a burden for employers to demand proof of legality from those they hire.

With the present regulations about aliens not working as they should, the U.S. needs to come to grips with the hard social and economic problems of tightening up. Mexico, because of its population explosion, also has to face the problem squarely. So firm measures at home, plus candid, top-level talks with Mexico and others, designed to halt illegal entry in the first place, rather than apprehending and reporting aliens afterward, are requisite first steps to correct the situation.

[From the Arizona Daily Star]

PESO DROP COSTING BORDER JOBS

(By John Woestendiek)

Douglas—At least 500 U.S. workers in Arizona border cities have lost their jobs in the past two months because of the devaluation of the Mexican peso. Several hundred Mexicans who work on the U.S. side have also lost their jobs.

Those and other statistics presented at a symposium here yesterday painted a bleak picture of the border economy, thrown into turmoil by two peso devaluations that left the buying power of Mexicans shopping in the U.S. cut in half.

State Dept. of Economic Security (DES) statistics show that more than 250 former full-time workers have filed unemployment claims after being laid off because of the devaluations and the drop in Mexican trade.

At least that many part-time workers have also lost their jobs.

"The solution to this unsteady situation won't be easy," Gov. Raul Castro told 250 businessmen and public officials at the seminar. He recommended cutting prices, selling in volume, and more generous credit terms for Mexicans as short term solutions.

Castro said he has recommended that the newly created Southwest Border Economic Development. Region study the problems created by the devaluation.

A full recovery could take up to a year, state officials said.

Retail trade is down 38 per cent in Douglas, 40 per cent in Nogales and 10 per cent in Bisbee, said John L. Huerta, DES director. Lesser effects are being felt in Tucson, Sierra Vista and the Yuma area.

Other statistics presented at the symposium, held at Cochise College and sponsored by local chambers of commerce and the Dept. of Economic Security, included:

—In Nogales, 200 unemployment claims have been filed that are related to the devaluation. About 700 workers in Nogales, including both U.S. and Mexican citizens, have been laid off and all part-time retail employees have been released, said George Uribe, president of the Nogales Chamber of Commerce.

—The Douglas office of the DES has had 50 new claims as a result of lay-offs caused by the devaluation.

—Weekend retail trade in the Sierra Vista area is down by 35 to 40 per cent, said C. Ross Randolph, executive director of the Sierra Vista Chamber of Commerce.

—Capin's, a 12-store retail chain in Douglas and Nogales has fired 99 full-time employes and about 150 part-time employes because of the devaluation, said Harlan Capin, the chain's vice president. The payroll for the retail chain decreased by 39 per cent from August to November, Capin said.

"We definitely need some relief," said Capin, one of many other businessmen who urged that Mexican shoppers be exempted from paying the 4 per cent state sales tax.

"We have an immediate problem. What can we do to get the 4 per cent dropped without going through the Legislature? That takes months—we need it today," said Capin.

Neal Trasente, director of the state Dept. of Revenue, said his office lacked the authority to put a moratorium on the tax. He said any repeal would most likely require legislation.

"Business along the border had made a partial recovery after the initial shock of the first revaluation," said Huerta. "The second revaluation has reportedly caused retail sales to slip to the level experienced immediately after the first revaluation. Merchants are also reporting a loss of consumer confidence and an eroding of employes' morale."

Huerta said Mexican customers have been discouraged from coming into Arizona by the 4 per cent state tax, a 2 per cent city sales tax in Tucson and "a great deal of friction (that) has erupted as a result of incidents occurring at the border as Mexican citizens cross into the United States."

In Yuma, he said, Mexican customers have reportedly been "hassled by the U.S. Border Patrol."

Recommendations to offset the decline in sales include promoting tourism in Southern Arizona and Mexico, improving merchandising techniques, diversifying the economic base of communities and taking advantage of federal public works and grants.

Because of the two peso devaluations within the past 60 days, merchants in Nogales have pegged the peso at a temporary rate of about 4 cents.

—

[From the Sunday, January 2, 1977 issue of the New York Times]

New President Has Reversed Mexico's Mood

(By Alan Riding)

Mexico City, Jan. 1—After just one month in office, President Jose Lopez Portillo has wiped away the memory of the stormy Echeverria administration by adopting a radically different style of government, devoid of demagoguery and even shy of publicity.

The same party remains in power, many of the same politicians are still around and, in broad terms, the same policies are being followed. But the mood of Mexico has changed dramatically overnight.

Unlike former President Luis Echeverria Alvarez, who improvised controversial speeches and press interviews most days, the new Mexican leader rarely appears in public or on television. And, when he does, he speaks briefly and to the point, consciously avoiding political rhetoric.

"In Mexico, it is the President who plays the flute and everyone else dances the rhythm," one official explained. "It's quite simple. Anyone out of step is soon out of a job."

Strange Political Silence

As a result, a strange silence has fallen over Mexico. Politicians who just a few weeks ago offered lengthy opinions on any given subject now duck away from waiting reporters, while those authorized to speak have eliminated from their vocabulary such slogans as "The fight against imperialism" and "The third-world struggle for justice."

One outspoken critic of the Echeverria administration, cartoonist Abel Quezada, who was appointed head of the state-owned television channel, learned discretion the hard way: President Lopez Portillo considered his remark that "winter is over and spring has begun" too provocative—and fired him two hours after he took over his new job.

More than anything, though, the quiet and conciliatory style of the new Government has helped restore confidence in Mexico after the economic and political panic that accompanied Mr. Echeverria's last three months in office.

The Mexican peso has gained 30 per cent just six weeks after speculation drove it to a record low of 28.5 pesos to the dollar, while the waves of rumors that heightened nervousness here in November have abruptly stopped.

"THE PAST IS FORGOTTEN"

"People refuse to remember that just six weeks ago they were prepared to believe absurd versions of an imminent coup d'etat," a political analyst said. "The great thing about Mexico is that, with every new government, the past is forgotten."

For example, such recently influential figures as Mario Moya Palencia, Interior Minister until Dec. 1, no longer seem to exist, while new ministers, who a month ago were unknown and obscure bureaucrats, are now surrounded by bodyguards, huge limousines and waiting-rooms crowded with "friends" looking for jobs.

Friendship and loyalty remain the main requirements for a post in the Government. Most of the new ministers, such as those in charge of tourism, labor and foreign affairs, have old ties with President Lopez Portillo. Ministers and department heads, in turn, pay off personal and political debts with their appointments. Foreign Minister Santiago Roel, for example, has even named his former chief bodyguard to be his private secretary.

Mexican journalists, after six years of being courted and pampered by President Echeverria, are decidedly unhappy with the new style of government.

LESS OBSESSED BY IMAGE

Mexican newspapers are generally controlled by the Government, but direct censorship is rare because publishers and reporters have traditionally been encouraged to feel they belong to the ruling establishment.

Under President Echeverria, government advertising in the press reached unprecedented levels, while the "parallel salaries"—the word "bribe" is considered sordid—directly paid to journalists by the Government were sharply increased, in some cases to as much as $2,000 a month.

But President Lopez Portillo is less obsessed by his image. He has therefore upset publishers by buying less space in their newspapers and angered journalists by cutting or even stopping their "parallel salaries."

Rather than being ushered into presidential meetings, reporters covering the National Palace must now wait on the street—"risking getting run over or being shot by a bodyguard," one colleague complained bitterly—and scramble to interview personalities as they leave. A leading banker was recently chased 300 yards into the nearby cathedral before he agreed to answer questions.

NO PUBLIC APPEARANCES

"You can't talk of verbal austerity," Mr. Lopez Portillo reassured reporters this week. "The mouths of officials haven't been padlocked or zippered up. Some of them are just discreet by nature."

Only a few of the top "politicos" of the last Government have retained key jobs, but analysts here are already speculating that they may not survive 1977. One Lopez Portillo aide complained that some of these figures were still busily publicity-hunting as if there had been no change.

For those who are now out of a job and sitting at home—"waiting for the telephone to ring," as one put it—the end of political power has come as a shock.

But the composition of the new Government is some encouragement for those now unemployed: several politicians who were influential under President Guastavo Diaz Ordaz and were sidelined by President Echeverria have now been recalled to the winner's circle.

[From the Jan. 2, 1977 issue of the New York Times]

I.M.F. Backs Mexico On a Recovery Plan Allowing Price Rises

(By Alan Riding)

Mexico City, Dec. 31—Mexico's new Government has won approval from the International Monetary Fund for an economic recovery program that would permit continued price increases and deficit spending as an alternative to sharp deflation and massive unemployment.

A $1.2 billion loan agreement with the I.M.F., ratified earlier this month by the month-old Government of President Jose Lopez Portillo, gives Mexico three years in which to reduce its budgetary and balance-of-payments deficits. New foreign loans, however, will be inevitable.

"As a result, the administration will not be forced to apply such restrictive measures as would have been necessary over a shorter adjustment period," a Finance Ministry statement explained. "Had this been necessary, production and employment would have been drastically affected."

Following the Aug. 31 devaluation of the long-stable Mexican peso, prices rose rapidly and dramatically so that inflation for 1976 totaled about 30 percent. But while some food and equipment prices will continue to rise in the coming months, inflation is expected to ease slightly in 1977.

NO TOUGH BUDGET INITIATED

The Government has repeatedly stressed its intention of controlling inflation, but, with many companies already laying off workers because of slack domestic demand, it has steered clear of a tough deflationary budget for 1977.

Current spending for the year will grow by 31.5 percent, a slight rise over 1976 in real terms to $18.5 billion and capital investment by 46.8 percent to $7.3 billion. But revenue will cover only three-quarters of this and the balance must be financed domestically and abroad.

Trying to head off an ever-deepening recession—the economy grew by 3.2 percent in 1976, compared to an average of 5.7 percent between 1971 and 1975—the Government has signed a $5 billion joint-investment pact with the private sector aimed primarily at creating 300,000 new jobs and stimulating the economy.

President Lopez Portillo has also decided against clashing with the labor movement so early in his administration by trying to freeze wages. Instead, from Jan. 1, minimum wages have been raised by nine percent, a figure that will be used as a guide for upcoming industrial negotiations.

WAGE INCREASES CONTINUE

Added to wage increases of between 16 and 23 percent following the peso devaluation, wages have now increased by between 25 and 33 percent in just four months—almost equivalent to the amount that the Mexican currency has been devalued.

After speculation drove the peso down to extremely low levels in October and November, the currency has now recovered impressively and is floating at about 20 pesos to the dollar, 37.5 percent below the parity maintained for 22 years until last August but 30 percent higher than the record low registered on Nov. 22.

But with the President himself warning that new price increases are necessary to put an end to the "fictitious economy" of subsidies, the peso is expected to slip again in the coming months as it absorbs the impact of new inflation. The Government is under pressure from business, however, to end the float and re-establish a fixed parity with the dollar.

NEW MINISTRIES ARE FORMED

While trying to stabilize the economy, the Government's major initiative so far has been an administrative reform to eliminate "official anarchy" and to institute greater efficiency and coordination within the bureaucracy.

A new Ministry of Programing and Budgets has been formed to act as a watchdog over the entire public sector, a new Trade Ministry has been created with special powers and the Ministries of Agriculture and Hydraulic Resources have been fused.

The prospects for the coming months are nevertheless disheartening. Mr. Lopez Portillo himself admitted that to date devaluation had been "all tragedy" but the advantages of the measures would become apparent within six months or so.

"In circumstances that are not very favorable but are in no way desperate, I'll aim for as low as possible inflation and as high as possible growth," the President said a few days ago. "The growth rate will be lower than the recent average, but I'm going to try and live in the best of both worlds."

[From the January 2, 1977 issue of the New York Times]

Mexico Congress Shelves Drug Reform Legislation Giving Parole to Prisoners

Mexico City, Jan. 1 (AP)—The Mexican Congress has effectively shelved penal reform legislation submitted as the result of a campaign led by Americans seeking parole from prisons in Mexico.

Yet despite yesterdays congressional adjournment until next September, eight Americans, as well as 23 other prisoners, say they are continuing a hunger strike in support of the legislation, which would reinstate parole rights for drug offenders.

Parole for inmates convicted on drug charges was removed in 1972 when Mexico and the United States launched a joint campaign to wipe out narcotics smuggling.

About 600 Americans are in Mexican prisons, most in connection with drug violations. About 100 of them went on a hunger strike Dec. 4 in an effort to back up their demands for parole legislation.

PRISONER SAYS PROTEST CONTINUES

A spokesman said Thursday that most of the prisoners had started eating again when it became clear the Mexican Congress would take no action on the legislation.

However, a statement yesterday by one of the protesting prisoners said the hunger strike was still being carried on by eight United States citizens, a Canadian and 22 Latin Americans.

Mexican law allows the President to call special sessions of Congress, and a permanent commission made up of both houses of Congress meets intermittently to approve legislation. But congressional sources say there is little likelihood the parole legislation is considered important enough for special action.

The United States and Mexico signed a treaty last Thanksgiving that, when approved, will allow American inmates in Mexico and Mexicans jailed in the United States to serve the remainder of their sentences in their homelands. American diplomatic sources predict it will take until April for the first exchange.

The Mexican Congress has completed action on the constitutional amendment.

[From the January 1, 1977 issue of the New York Times]

Land Reform Has Usually Taken Place On Paper Only

(By Alan Riding*)

Mexico City—In most Latin American countries, millions of peasants are almost resigned to never owning their own land, but the current peasant unrest in Mexico arises largely from perpetuation of the myth of agrarian reform as the answer to rural poverty.

For six decades since they "won" the 1910 revolution, Mexico's peasants have been constantly appeased by the promise of land. There is little cultivable land

---

**Alan Riding, a journalist based in Mexico, writes frequently for The Review on Latin American subjects.*

left to distribute to the 4 million still landless peasants. By the time President Luis Echeverria Alvarez took office in 1970, many peasants had been waiting in vain for land for 20 or 30 years. He revived their hopes by expropriating some large landholdings. But when he left office last month many peasants were still without land. and their reaction was anger in northwest Mexico, where the contrast between rural wealth and poverty is greatest, peasants occupied private estates and halted farming operations on tens of thousands of acres.

The peasants' action was more a signal of despair than a sign of rebellion. Unlike 1910, the peasants now form a minority in this increasingly urbanized country of 6 million people, the central Government and the army are united so there are no figures like Emiliano Zapata or Francisco "Pancho" Villa to lead them. "The agrarian reform is over," one farmer said recently, "and the myth must die too."

PEASANTS NEED MONEY, TOO

The facts that militate against success for land redistribution as an answer to Latin rural poverty are many. In countries that are often mountainous and either too arid or too swampy, there is just not enough land. Even when the land is provided, it suffices for only one generation since often it must be further divided among the numerous heirs of the original occupants. Getting the land is not enough; the peasants lack capital to buy proper seed, livestock, equipment or fertilizer or to irrigate or drain the land.

These conditions apply not only to Mexico but throughout Latin America, but that has not prevented efforts at agrarian reform. After the 1959 Cuban revolution awakened Latin America's leftists to the plight, and revolutionary potential, of the oppressed peasants, the United States persuaded several governments to consider land reform.

But as middle-class Marxists formed rural guerrilla movements in many countries, even formally democratic governments resorted increasingly to repression of the peasants. Then, as right-wing military governments steadily seized power across the hemisphere, the position of the traditional land-owning families and the modern food-processing companies was strengthened. Today, the surviving agrarian reform programs are skeletons of the good intentions of the 1960's.

Frequently, the fate of peasant movements has followed that of progressive governments: In Guatemala in 1954, the right-wing military regime reversed the reforms of the deposed Arbenz Government and even returned land expropriated from the United States-owned United Fruit Company; in Brazil 10 years later, the new military regime quickly smothered the peasant leagues in the northeast; and in Chile over the last three years, the military junta has ended the land redistribution first sponsored by the Alliance for Progress more than a decade ago, and accelerated under the late President Salvador Allende Gossens. Only in Cuba, where the revolution was not truncated, have the reforms been carried to completion.

Even in Mexico and Bolivia, where much land has been distributed to the peasants, the dire living conditions of the rural poor have not noticeably improved. In Mexica, 85 percent of the landholdings produce enough food for the families that live on them.

Throughout the hemisphere, food production has fallen increasingly into the hands of modern "agribusinesses," the soya producers of southern Brazil, the wheat producers of northwest Mexico, that use the best machinery and techniques and as little manual labor as possible. In many cases, the huge United States farming companies have sold their properties, preferring to buy the primary products from nationals and take their profits in processing and marketing. With high birth rates and little job creation in the countryside, the rural populations have been spilling over into Latin America's cities. Between 1960 and 1975, the rural population of Latin America grew from 101 million to only 115.5 million, while the urban population grew from 98.7 million to 186.9 million. Stated differently, the rural share of the total population of the region fell from 50.6 percent to 38 percent in 15 years.

But the political importance of the peasants is not to be ignored. In quasi-dictatorships where elections are nevertheless held, such as Brazil, Guatemala and El Salvador, the conservative ruling groups need the manipulated peasant vote to counter the liberal opposition that exists among urban middle-classes.

The peasants, often frightened and illiterate, are trucked into the polling booths and told for whom to vote. Their leaders are frequenly intimidated or corrupted.

Some leftist romantics still believe that the misery of Latin America's peasants will eventually create revolutionary conditions. But there is little evidence of this. On the contrary, the political backwardness of the peasants is still symbolized by the impoverished Indian farmers who tipped off the Bolivian Army on where to find and kill the Cuban revolutionary, Ernesto "Che" Guevara, in 1967.

In the rare countries where governments give special attention to rural troubles, the initiative has not come from the peasants. In El Salvador, where most cultivable land is owned by the "the 14 families," the United States Agency for International Development has been sponsoring the formation of peasant cooperatives.

In Honduras, the National Peasant Union, considered one of the few independent peasant groups on the continent, was founded by a number of progressive Roman Catholic priests and is still closely associated with the international Christian Democrat movement. In Colombia, President Alfonso Lopez Michelsen continues to support modest land redistribution but sees it as no panacea. He says that the scale and capital required for modern agriculture are beyond individual peasant capabilities.

The sweeping agrarian reform carried out in 1969 by Peru's military government formed part of a broader program of social reform. But it also sought to break the political control of the populist Apra Party over the powerful sugar and cotton workers. Since Gen. Francisco Morales Bermudez seized power there in 1975 and the Peruvian "revolution" moved away from the left, agrarian reform has lost priority.

Everywhere in Latin America, except Cuba, millions of rural inhabitants are still excluded from the economic and political lives of their countries. With despair taking the shape of large-scale unrest only in Mexico, there is no reason to expect change.

EXHIBIT B

OPENING MESSAGE

OF

GOVERNOR RAUL H. CASTRO

STATE OF ARIZONA

THIRTY THIRD LEGISLATURE

FIRST REGULAR SESSION

PHOENIX, ARIZONA

JANUARY 10, 1977

Mr. President, Mr. Speaker, Honorable Senators and Representatives, Distinguished Guests, Ladies and Gentlemen:

The Arizona Constitution calls on the Governor to report on the "condition of the State" at each legislative session, and to "recommend such matters as he shall deem expedient." Arizona statutes require that the Governor submit a detailed budget to the legislature not later than five days after the regular session convenes.

It is with a sense of pride and duty that I, as Governor, perform these constitutional and statutory functions once again.

I have provided each of you with a copy of the executive budget for fiscal year 1977-78.

We are meeting here today in a different and brighter atmosphere than we were experiencing two years ago. During the past two years the state's economic picture has improved. Unemployment has decreased from 10.5 percent to around 6 percent. Preliminary indications show that tourism and travel were up at least 10 percent for calendar year 1976. The tourism and travel industry produced \$2.4 - \$2.5 billion for our economy, according to recent estimates by Arizona State University. We are bouncing back from the depths of the recession of two years ago.

Similarly, the Arizona governmental picture is vastly improved. Two years ago, when I took office, my predecessor's budget had to be trimmed by \$17 million. We asked government agencies to operate as frugally as possible and not to spend all appropriated funds.

We managed to do all this without resorting to mass layoffs of state employees. Other states, you will remember, were not so fortunate.

Projected available funds for this coming fiscal year will exceed my proposed operating budget by many millions. Rather than suggest to you many politically-tempting programs that would require additional expenditures, I am proposing for this year only that most of these funds be returned to the taxpayers. I must emphasize this program is for one year only.

If you approve the following recommendations, we can fund the proposals in my message and still end the year with an anticipated $28 million in unappropriated surplus. I recommend the legislature place this amount in a special fund to provide for our cash flow needs.

I have an additional suggestion regarding the further improvement of Arizona's cash flow situation. I recognize there may be many problems involved with the suggestion, and they may be insurmountable. Nevertheless, I believe the proposal merits careful consideration. Many Arizonans make property tax payments along with their mortgage payments each month. These funds accumulate in financial institutions for six months before they are disbursed. I suggest you consider legislation that would require financial institutions to forward impounded funds to the County Treasurers on at least a quarterly basis. The change would be of benefit to the school districts, the cities, and the counties, as well as the state.

EFFICIENCY AND PRODUCTIVITY

A major theme of my message to you today is one of efficiency and productivity in state government. This is a theme that can provide a common framework for joint action between the legislative and executive branches.

The people of Arizona want efficiency and productivity in state government. Government officials and civil servants must demonstrate that they are deserving of the public's confidence.

Productivity in government often begins with the education of Arizona's youth. We must strive to increase parental involvement in our schools, improve accountability for school expenditures, and resist costly federal encroachments. Rather than spending precious time filling out forms, we must be sure our teachers have time to teach the basics, along with the rights and responsibilities of good citizenship. In this regard, the family and the schools must work together.

State officials must take a closer look at the cost and performance of government services. The taxpayers often feel they have little control over what government does.

Moreover, the average citizen is confronted with a host of taxes in every conceivable part of their lives, from food to autos, to gasoline. The list is so long, in fact, I will not itemize it for the sake of brevity. Simply stated, the tax burden is a heavy one.

EXECUTIVE BUDGET

That is why I have emphasized austere budgets for the state.

For Fiscal year 1977-78, I am recommending state general fund expenditures of $875 million. I have trimmed state agency requests by over $80 million. I have demanded additional justifications where state agency requests represented substantial increases over last year.

TAX RELIEF PROGRAMS

As I have indicated, there will be an excess of revenues available for expenditure next year. However, instead of spending the excess funds, I am recommending three tax relief programs which will return $84 million to Arizonans:

1) a property tax relief program for the elderly

2) relief from taxes on food sales

3) an overall property tax relief program

My first tax relief program is directed toward easing the tax burdens on our elderly citizens. Property taxes in Arizona have created financial burdens for our older citizens. Many of them are homeowners on fixed incomes. Inflation has eroded these incomes badly. For many, social security is the only source of income. Our elderly citizens face the possibility of losing their homes because they cannot afford to pay the property taxes!

The current special property tax credit program was designed to alleviate the situation. It has not, however, worked out as planned. This is due, to some extent, to the complexities involved in filling out the necessary forms.

I am recommending a simple income tax credit for each senior citizen on a limited income. The amount of tax credit would range from $30 to $100 per person, depending upon the level of income received by the household. This will eliminate the need for elderly citizens to complete the long income tax form currently required to claim a property tax credit. This would replace property tax credit procedures now in effect.

Further tax relief for the elderly could be generated by eliminating the tax on profits from the sale of a family home for Arizonans over the age of 65. This would also bring Arizona in conformity with federal tax guidelines. *I recommend legislation to reflect this change in our current tax laws.*

The total cost of my tax relief proposal for the elderly is estimated to be $5 million.

The second program involves the sales tax on food. In Arizona the state's general sales tax base includes food sales. This leads to a heavier burden on families who can least afford to pay these taxes. *I am, therefore, recommending an income tax food credit of $10 per person for residents of Arizona. A family of five would be eligible for an income tax credit of $50.* Many Arizonans do not earn sufficient income to file a return. Those not required to file an income tax return should be permitted to claim a cash refund by filing a simple affidavit. The cost of this tax relief program is estimated to be $22 million.

My third tax relief program concerns the current property tax reduction policy for all homeowners which has been in effect for four years. The present policy has many problems. One major problem is it benefits least those who need it most. For instance, the amount of tax reduction allowable on a $50,000 home is five times greater than the reduction permitted for a home in the same tax district valued at $10,000!

I am proposing a completely new property tax reduction program for Arizona to replace the existing one. *I propose each homeowner receive a tax reduction in an amount equal to the taxes on $800 of assessed valuation. The 1977 property tax bill for each homeowner would be reduced accordingly.*

I am talking about tax relief for homeowners who actually live in the home they own. Multiple home ownership will not entitle people to multiple benefits.

If the average statewide tax rate in 1977 were to be $12 per $100 of assessed valuation, the average tax reduction per homeowner would be $96. The cost of this tax relief proposal is estimated to be $57 million.

I respectfully suggest appropriate legislative committees develop a permanent property tax relief program for Arizona. The "circuit breaker" method of providing tax relief which passed the Senate last year could also be considered. I urge you to consider the impact of a law passed by the U. S. Congress during 1976. The Act provides railroad property shall not be taxed at rates higher than those levied on other commercial property in the state.

This Act will take effect in February of 1978. Its implementation could have a profound and lasting effect on the state's tax base. Some political subdivisions will be dramatically affected. An analysis of the ramifications of the Act by the Legislature is required, and it makes sense to combine the analysis with a study of the existing property tax reduction policy.

GOVERNMENT REORGANIZATION

There have been suggestions about breaking up some of the large "super agencies". We should not lose sight of the fact that your predecessors in office, and mine, only recently combined them into super agencies to create more efficient management.

Taxpayers may not look favorably on a process that first builds, then tears down state agencies without sufficient time to test and judge the results. I had nothing to do with the creation of these large agencies. It was done before I became Governor. I have tried to work with what we have, and there are problems. But let's not be hasty. Let's take a closer look at the problems before taking extreme actions.

Tools exist to assist us with the task of creating greater efficiency, effectiveness, and responsiveness in state government. There is no single or best way to bring this about. I have asked my budget staff to consider alternative strategies, such as "zero based budgeting". I want the state agencies to begin thinking in terms of program priorities. I am exploring the possibility of a high level committee to help us with those studies and judgments.

It is time to take positive steps on the road that leads to providing the taxpayers with a fair return on their tax "investments".

ENERGY

I was invited to present the keynote address at the 29th Arizona Town Hall at Grand Canyon in October. The topic was the Arizona Economy. I stated at the Town Hall Conference--and I emphasize it again here--that energy and water are the keys to a healthy economy in Arizona.

First, let's look at the energy picture. People are finding their utility costs are approaching their mortgage payments! Continuing increases in the cost of electricity are anticipated for the foreseeable future, and a substantial natural gas deficit is expected. Shortages and increasing costs result in a loss of jobs from employment levels that would exist if energy supplies were adequate. That's the bottom line--a potential loss of many thousands of jobs!

What can be done? We can eliminate waste through conservation. For example, tax incentives could be considered for improved building insulation. We can develop alternate energy sources such as solar and geothermal. Through these efforts, we *can* help offset the projected energy problem. That is why it is so important for Arizona to develop and implement a comprehensive, statewide energy management program.

The energy management efforts should be tied to a more efficient organization of the state's energy efforts. Once again, we are talking about efficiency in government.

The growth of energy related programs in Arizona has been fragmented and uncoordinated. In 1975, I established the Interagency Energy Planning Office. That office brings together some twenty state agencies engaged in energy activities. Members of the Interagency Energy Planning Office have discussed the development of a statewide energy conservation plan, energy reorganization, and many other items.

While the coordination of our energy programs has been enhanced by this executive action, it represents only a "band-aid solution".

We need a more permanent, legislatively-sanctioned energy agency if we are going to effectively and efficiently meet the state's energy needs and requirements. I am, therefore, urging the creation of an Arizona energy agency.

The creation of an overall Arizona energy agency is overdue. We need it to focus responsibility and pinpoint accountability in state government. We need it to coordinate Arizona's energy policies with those of the national government.

SOLAR ENERGY

Nationally, Arizona has "a place in the sun" with more clear days than any other state in the union. The federal government's commitment to solar energy development for fiscal year 1977 is $290 million. It is expected this commitment will be increased in future years. Arizona should continue its efforts to obtain the National Solar Energy Research Institute. Funding for the solar energy pump project merits full consideration.

I want to urge you to give special attention to providing additional incentives for the utilization of solar energy. It is time to do more to stimulate the manufacture of solar energy devices in Arizona. We need solar equipment people can afford to buy for their homes and businesses. We need solar devices that are cost effective.

If we provide greater incentives for consumers to use solar devices, we also provide a stimulus for the solar industry to develop more economical equipment. By increasing the demand for solar products through consumer incentives, we increase the competition in the industry to provide the larger supply required. The net result would be a decrease in the cost of solar hardware and conservation of non-renewable energy resources.

I recommend you consider adopting a solar energy incentive for the consumer. I propose you provide a tax credit for the installation of solar equipment. I recommend a tax credit in the amount of 25 percent of cost, up to a maximum of $1,000 per installation, to be deducted from the citizen's final income tax liability.

WATER

The second vital link to the state's economy is water. As with energy, it is now limited. The old era of inexpensive and ample supplies is past. We must face up to this fact. Difficult choices lie ahead.

Arizona's water problem has many dimensions and it is difficult to suggest a single comprehensive solution. The problems have intensified as a result of recent State Supreme Court interpretations of groundwater law.

Notwithstanding the Supreme Court interpretations, the serious problem of groundwater depletion remains. The Central Arizona Project should provide relief, but there is evidence that depletion will continue even after the *CAP* is functioning.

Improved water conservation--by individuals, by industry, and by agriculture--can assist in solving the state's water crisis. Arizona citizens are willing to make the appropriate sacrifices to conserve both water and energy. But they insist on fairness in the rules and that the organized interests contribute to the effort as well.

State government has the option of meeting the problem head-on, or consigning it to the workings of the marketplace--free of restrictions. In Arizona, the second option does not seem realistic. Government already has been extensively involved in water policy making and management.

That is why I have sponsored a series of public water meetings around the state. The more people we can involve in the process of defining the problems and shaping the solutions, the easier it will be to implement a consensus water policy.

A compromise solution must be hammered out. The old equilibrium among the various water interests has been upset. Each interest is going to have to give a little. In a spirit of compromise, we can work out both short and long term solutions to our water problems. If one of more parties should become stubborn, we all stand to lose.

We need input from the Indian tribes. It is essential that a climate of mutual understanding and cooperation be maintained between state government and the Indian tribes. State government and the Indian tribes must appreciate the inter-dependencies that exist between the economies of the Indian reservation, the surrounding communities, and the state in general. As Governor, I have taken a personal interest in Arizona's "Indian affairs". With mutual respect, trust, and understanding, I believe barriers can be lowered and problems can be worked out.

MEDICAID

Regarding the health of our citizens, I urge the implementation of medicaid in Arizona. I am fully aware that in other states the medicaid program has been the subject of investigations for fraud and abuse. Nevertheless, I am convinced the program is vital to the health and well-being of many of our citizens. We can work to prevent potential abuses.

We can consider the establishment of felony and misdemeanor penalties for fraudulent conduct on the part of health care providers and recipients.

It is time to implement medicaid in Arizona. I am recommending $10.8 million for medicaid in my budget for 1977-78. There are $6 million in new monies, and the balance of $4.8 million will come from funds currently appropriated in other health-related agencies.

STATE GROWTH AND LAND DEVELOPMENT

Many factors have been mentioned here today that influence the growth and development of Arizona. Programs of state government must contribute to orderly growth and development.

The real estate industry in Arizona has received bad publicity-- statewide and nationwide, resulting from the unscrupulous and, in many cases, criminal practices of an element of our society which must be eliminated. These practices have left the state with a legacy that is difficult to repair. While our laws have been strengthened to prevent land fraud abuses, we must continue to act boldly to eliminate those abuses.

I am lending my wholehearted support and enthusiasm to the increased efforts of the state Real Estate Department to help protect the public from land fraud. We can turn what has been adverse publicity, both local and nationwide, into positive publicity by demonstrating the real estate industry in Arizona is a reputable one. Consideration should be given to legislative proposals being suggested by the Real Estate Department.

In addition, we need to achieve a long-term solution to growth and land fraud problems. Land use planning in Arizona has properly been the responsibility of local government and should remain so. We must recognize, however, that the actions of state government do have a tremendous impact on land use patterns. The role of state government in these matters has not been adequately defined. Previous attempts to do so have resulted in much debate, but no legislation. Attention should be directed toward good land use legislation which does not remove local prerogatives. You are also requested to extend your consideration for legislation where necessary to permit lawful access to state trust lands for individuals.

WHITE COLLAR CRIME

We are also confronted with a variety of situations that have been called "white collar crime". They include "consumer fraud", "securities fraud", and so on. The state's national reputation is on the line.

We must be relentless in securing justice for our people who are victimized by crime. The weaknesses in our laws must be changed. Legislation passed during the last session removed a requirement that corporations file certain financial statements with the state. The loopholes created could seriously inhibit investigations of fraud. I recommend reinstating that provision. We must strive to correct the contradictions and other inadequacies with our laws relating to white collar crime.

The victim should be able to rely on an effective and efficient judicial system in coping with the unscrupulous--whether they be land dealers, home "improvement" specialists, "thrift" institutions, morally and legally bankrupt corporations, or whatever. If persons engaged in fraud of one kind or another are escaping punishment in Arizona, we must find out why.

Government cannot and should not become a third party in every transaction. It must, however, provide proper institutions, laws, and procedures to guarantee our citizens are reasonably protected against fraud.

We must resolve to combat fraud in our state.

My budget for 1977-78 includes recommendations for additional staff for several state agencies to better equip them to handle the dramatic increase in white collar crime. I ask you to approve my recommendations for increased expenditures for the Attorney General's Office, the Department of Public Safety, the Corporation Commission, the Insurance Department, and the Real Estate Department.

There is a pool of approximately $4 million in special federal funds which is available to the state. The funds represent Arizona's share of the revenues available to the states under the Public Works Employment Act of 1976.

These funds are intended to provide for additional staffing needs, and they must be appropriated or obligated within six months.

While my budget provides recommendations for assisting the fight against white collar crime, a real need still exists for additional money in many areas. The Attorney General's Office, the Department of Public Safety, and the Corporation Commission are examples of agencies which could well use the special federal funds for additional staffing.

ELECTION LAW REFORM

We should take broad action to reform our election laws. The Legislature should consider granting additional authority to the Secretary of State to provide that office with sufficient tools. The tools are needed to deal effectively with questions of vote tabulation. They are needed to provide a general uniformity to procedures for registration, voting, and candidacy for office. They are needed for protection against election fraud.

There are other actions that could be taken. Creation of a uniform format for election night reporting through the Office of the Secretary of State would be advantageous to the election process. As it stands now, each county reports in a different format independently. There is no central source for tabulation of statewide congressional or legislative races available until the official state canvass the third Monday following the General Election. Also, provision must be made to clarify the language of ballot propositions. The format for publicity pamphlets and the wording should be made easily understandable.

A procedure should be devised that will allow absentee ballots arriving before election day to be tabulated after the closing of the polls, but before the arrival of precinct returns. This will avoid a change in the result of an election between election night and the official count.

These election law reforms will clear up the confusion that dampens public confidence in the fairness of our elections.

MINE SAFETY

The Legislature should examine existing requirements and qualifications for the office of State Mine Inspector. I believe the health and safety of thousands of workers in Arizona's mines is at stake. Existing legislation is not adequate to ensure their safety. Therefore, I urge you to consider this matter.

CRIMINAL CODE

Arizona's criminal code, like our tax laws, has evolved in piecemeal fashion over the years. We must strive to provide a more concise and logical classification of crimes. Sentencing variations permissable under the present criminal code should be reviewed. As a former Judge, I can say with authority the code is badly in need of revision.

I consider work on Arizona's Criminal Code to be a high priority item on the legislative agenda.

CORRECTIONS

Arizona's correctional system is facing a crisis.

Demands for millions of dollars are being made to alleviate this situation. Yet there are constant complaints about ineffectiveness and waste.

It is time for us to look closely at what needs to be done. It is not a time to over-react. It is time for consideration and planning. We must consider the present status of our correctional programs and institutions, and what directions we must pursue in the future.

In addition to increased operating funds, I am recommending $4 million in capital outlay for the completion of the correctional training facility in Tucson. I am recommending $1.1 million for improvements at other facilities.

To meet future needs, I will create a Committee on Corrections that will be charged with the development of a five-year program for the Department of Corrections. This approach will prevent piecemeal solutions and will ultimately result in a savings of tax dollars.

STATEWIDE NARCOTICS STRIKE FORCE

The problem of dangerous drugs in Arizona has received nationwide publicity. To facilitate a counterattack, I urge you to expand the border county strike force to include the entire state and to appropriate sufficient funds to carry on this important fight. However, care must be taken to avoid duplication in this effort.

I have contacted the Governors of Utah, New Mexico, and Colorado to develop a regional strategy in the fight against narcotics. I have received their full support. By developing a cooperative arrangement with our neighboring states, a genuine regional strategy will emerge.

FLOOD CONTROL

We must see to it Arizonans are better protected against natural catastrophes and disasters--such as floods. My budget provides $4 million for flood control projects as part of a long-range plan to offer protection to our citizenry. These funds, combined with available matching funds, will result in a total infusion of approximately $30 million into the state's economy.

LEGISLATION AFFECTING COUNTIES

Home Rule

Local control over local affairs is fundamental. County Home Rule should be at local option. Our cities have long been able to boast of home rule, but our counties have lacked the necessary tools. Our counties need greater latitude in solving their problems. Moreover, by providing the counties with the necessary legal framework for Home Rule, the Legislature will be able to focus more intensively on issues of statewide concern.

91-139 O - 77 - 10

Auto Registration

Presently, responsibility for issuing titles and registering motor vehicles is split between the County Assessors and the Motor Vehicle Division of the Department of Transportation. This has resulted in public confusion. Some counties have urged the State Department of Transportation to consolidate these duties and responsibilities at the state level. I am, therefore, recommending the duties and responsibilities for title issuance and registration be consolidated in the Motor Vehicle Division of the Department of Transportation on a permissive basis. This would allow counties the option of retaining their portion of the responsibilities if they so desire.

CONCLUSION

In concluding my remarks, I would like to emphasize my door is open to you at all times. My staff is available to work with you at any time. I look forward to a healthy and productive working relationship between the Legislature and the Governor's Office.

Thank you.

ADDENDUM

I have not mentioned property taxes paid on rental properties.

This is because what I am proposing is a substitute for the existing property tax reduction program for homeowners.

There is a disparity between the level of taxes paid by homeowners, and those paid by the owners of rental properties. The latter are taxed at higher rates.

Arizona is the only state that sets assessments for residential properties at different rates for tax purposes.

Last year the Legislature took a step in the right direction. Both Houses passed a bill which closes the disparities over a two year period. I signed that bill into law.

I urge your continued attention to this issue during the current legislative session.

(to be inserted on p. 5, line 12)

EXHIBIT C

ARIZONA-MEXICO COMMISSION

OFFICE OF THE GOVERNOR — BI-MONTHLY BULLETIN

VOLUME 2 — DECEMBER, 1976 — ISSUE 1

The resumption of the Plenary Sessions between the Arizona-Mexico and Sonora-Arizona Commissions took place at San Carlos, Guaymas, Sonora on November 4 through 7, 1976, as reflected in the conclusions report forwarded to each member recently.

The long expected announcement of the appointment of members of the Sonora-Arizona Commission by Lic. Alejandro Carrillo Marcor, Governor of Sonora was made in San Carlos, Guaymas at the time of the plenary session, and is as follows:

BOARD OF DIRECTORS, COORDINATORS AND MEMBERSHIP OF THE SONORA-ARIZONA COMMISSION

President: Lic. Alejandro Carrillo Marcor, Governor of Sonora.

Executive President: Lic. Hector M. Pesqueira Ochoa, Secretary of Development of the State of Sonora

Vice President: Lic. Raul Encinas Alcantar, Secretary General of Government of Sonora.

Director: Dr. Sergio Bribiesca Elvira, Director of Tourism of Sonora.

Secretary: C.P. Jose A. Aguilar Tirado

AGRICULTURE COMMITTEE:

Coordinator - Ing. Alberto Zazueta Nieblas, Secretary of Agriculture, Livestock and Agrarian Matters of Sonora

Sub-Coordinator - Ing. Carlos Manuel Castanos

Members - C.P. Hector Aguilar Parada, Alfonso Tirada Maldonado, Carlos Baranzi Coronado

LIVESTOCK COMMITTEE:

Coordinator - Lic. Hector Acedo Valenzuela
Sub-Coordinator - Ing. Leocadio Aguayo
Members - Alfonso Pesqueira, Ing. Manuel Romero Ochoa, Ing. Fernando Gonzales Rogel

TOURISM COMMITTEE:

Coordinator - Lic. Santiago Garcia de la Garza
Sub-Coordinator - Prof. Armando Cantu Aldrete
Members - Diego Redo, Josefina Daniels, Cesar Gandara Laborin, Rafael T. Caballero, Lic. Ramon Osuna Giles, Dr. Agustin Valenzuela, Hugo Delgado Lomeli, Nicolas Kiriakis, Jesus Irastorza, Roberto Gaona, Ramiro Leal Escalante (Public Relations)

INDUSTRY AND COMMERCE COMMITTEE:

Coordinator - Francisco Fourcade
Sub-Coordinator - Lic. Carlos Peralta Davila
Members - Lic. Alvaro Obregon Luken, Lic. Marcelo Meouchi, Lic. Manuel Gandara Magana, Lic. Guatimoc Iberri Gonzalez, Ing. Alberto Torres Soto, Francisco Obregon T., Ing. Federico C. Villarreal Hooper, Ing. Jesus Alverde, Ing. Cesar Estrada, Lic. Jose G. Gutierrez Figueroa, Ing. Carmelo Goycuria, C.P. Ernesto Elias, Jorge Escalante Platt.

BANKING & FINANCE COMMITTEE:

Coordinator - Diego Perez Sierra
Sub-Coordinator - C.P. Rosalio Moreno Durazo
Members - Agustin Lopez Portillo, Jose Manuel Nunez, Lic. Ricardo Valenzuela Torres, Roberto Araiza, Lic. Fernando Agiss Jimenez, Lic. Fortino Lopez Legazpi, Lic. Agustin Tye.

EDUCATION COMMITTEE:

Coordinator - Prof. Rene J. Arvizu Durazo
Sub-Coordinator - Prof. Ernesto Lopez Riesgo
Members - Prof. Gonzalo Hirata, Eduardo Estrella Acedo, Prof. Xicotencatl Murrieta, Prof. Gabriel Villegas Maytorena.

PUBLIC HEALTH COMMITTEE:

Coordinator - Dr. Miguel Inguanzo Varela, Chief of Coordinated Services of Public Health of Sonora
Sub-Coordinator - Dr. Ernesto Ramos Bour
Members - Dr. Javier del Valle Gomez, Dr. Roberto Robinson Bours, Lic. Roberto Fonllem Alejo, Dr. Jesus Contreras Carranza.

ART & CULTURE COMMITTEE:

Coordinator - Lic. Juan Antonio Ruibal Corella
Sub-Coordinator - Arq. Hiram Marcor Mora
Members - Dr. Gaston Cano Vaila, Cynthia de Murrieta, Hector A. Pesqueira, Prof. Armando Quijada

The following resume of the remarks of Governor Raul H. Castro of Arizona and Governor Alejandro Carrillo Marcor of Sonora at the plenary session in San Carlos, Guaymas was prepared by Ms. Gina Cord, active member of the Arizona-Mexico Commission, which indicates the outstanding success of the San Carlos meeting:

By Gina Cord - November 12, 1976

ONE. . . . TWO. . . . OR. . . . THREE WORLDS?

Arizona and Sonora Working for One World!

"As the American Astronauts were returning from the moon trip, they looked out to view the planet, Earth, far below them and one said... "Look! there's our world!" He wasn't referring to his country, his city, or his home address... he was viewing the earth as one singularly whole place". This quote is from the speech of Lic. Alejandro Carrillo Marcor, Governor of the State of Sonora and was an appropriate example of the 'oneness' which was created between countries during the meetings of the Sonora-Arizona Commission and the Arizona-Mexico Commission which took place in San Carlos, Sonora, Mexico the weekend of November 4-6, 1976.

Just prior to Governor Carrillo's address, the same viewpoint was aptly expressed by Arizona Governor, Lic. Raul H. Castro. The two learned gentlemen completely erased all borders by delivering their speeches, as a finale to the conference, first in Spanish followed immediately by their own translations in English, to receive a standing ovation from the audience of some one hundred twenty five commission members from the State of Arizona and a like number from the State of Sonora.

It was on this promise that the commissions were formed almost twenty years ago to create an atmosphere of International friendship between the United States and Mexico for the furtherance of culture, commerce, agriculture, and the transfer of ideas for the promotion of tourism. The amount of work that is accomplished by this large group of volunteer workers is most outstanding!

The Commission was originally founded in 1959 as the Arizona-Mexico West Coast Trade Commission, and for many years worked with the Comite de Promocion Economica y Social de Sonora-Arizona to improve relations in the areas of economic development, cultural exchange, education, communication and other activities. Early in 1972, the Commission was reorganized and incorporated consisting of the Governors of both states, a Governor's Advisory Committee, Board of Directors, Executive Committee, various working committees in many fields, and a general membership. The directors and members all serve on a voluntary basis without compensation.

The committees are divided into specific areas of work including Industry and Commerce; Tourism; Agriculture and Livestock; Public Health; Banking and Finance; Education; Art and Culture; and Legal Liaison... thereby taking advantage of the human, technical, cultural and economic resources among the people of Arizona and Sonora.

Within the next few weeks, the State of Sinaloa will also join these Commissions as already approved by the Governor of Sinaloa, Alfonso G. Calderon. He was personally represented at the San Carlos meeting by Sr. Enrique Fitch Diaz, Director of the Ministry of Tourism of Sinaloa.

As a part of the San Carlos meeting, the Governors and members of the Commissions inaugurated the new Italian-built "Autovias" diesel units recently purchased by the Ferrocarriles del Pacifico. Arizona members arrived at the Nogales border on Thursday and were immediately transferred to the autovias stationed at the end of the railroad tracks next to the border fence. Members of the Sonora Commission also were on board for this initial ride on the Italian trains which have airline-type seats. Meal and beverage service also are provided, and the entire delegation enjoyed margaritas and mariaches in the air-conditioned comfort of this excellent service. The formal schedule of these new Autovias begins on November 15 between Nogales and the resort city of Guaymas on a 5-1/2 hour daylight schedule.

During the six-hour working sessions of the various committees on Friday, the members got down to the serious problems which both of our countries are facing. The tourism committee alone passed ten motions on various problems ranging from attempting to arrange more optimistic press coverage (a public relations committee consisting of four members from each state was appointed)... to cooperating with the organizers of the Davis Cup Tournament to include tennis players from both states. The U.S./Mexico Davis Cup Tennis Tournament takes place in Tucson, Arizona, December 16-19, 1976, with December 17th being designated as "Sonora Day".

These motions are then passed before the Executive Committee (Executive Directors... Mr. Antonio Certosimo of Arizona and Dr. Sergio Bribiesca Elvira of Sonora) and if approved, are brought before the Governors during the Plenary Session which is held on Saturday. During the Plenary Session, the chairmen of each committee give their reports on the work sessions both in English by the Arizona Chairman and then in Spanish by the counterpart from Sonora. The finale of these sessions, of course, are the speeches by the Governors.

A man whose years of diplomatic service has given him his expertise with words, Governor Raul H. Castro of Arizona lead the closing remarks by saying... "the inauguration of the railroad and of the airport today is an example of the moving of people back and forth across imaginary lines and it is this movement that obviates suspicion and creates genuine understanding by becoming acquainted with one another". He also suggested that since Governor Carrillo and himself are from the legal profession, that they create a conference to be held in Arizona, attended by members of the legal profession from both countries in order to clear the mysticism from the air as regards the purchase of properties in Mexico by United States citizens, and the best means of creating commercial and economic prosperity for both countries.

Governor Carrillo Marcor of Sonora, an eloquent speaker whose diplomatic and professional career are almost unequaled in the world, held his audience spellbound to his closing remarks... "these are extraordinary moments in the development of man. Unless we are aware, we will miss this wonderful time we are coming into. This commission will make you missionaries of this new era... the oneness of the world... the oneness of mankind!"

Maybe if the astronauts had a magnifying glass as they viewed the earth from the area of the moon, they could have observed this relatively small group... 250 people... all interested International human beings... working together diligently and intelligently to create... ONE WORLD!

* * * * * * * * * * * * * *

In view of the effective results of the working relationship between the Arizona-Mexico and Sonora-Arizona Commissions during recent years and the fact now well-apparent that the Sinaloa-Arizona Commission is being reorganized to join with these Commissions, it is anticipated that the planned Tri-State concept will soon become a reality.

For several years this Commission has exchanged information with the Commission of the Californias, New Mexico Border Commission and with the Good Neighbor Commission of Texas. AMC plans to continue this practice in view of the similarity of the problems and concerns of all these Commissions to achieve a better coordination of activities between them. The possibility of a joint meeting of these border Commissions will be given serious consideration in the coming year.

It is expected that, with the resumption of activities between the Arizona and Sonora Commissions and the participation of the Sinaloa Commission in the near future, many of the programs proposed can be readily implemented and others will originate during the plenary sessions projected in the future for the social and economic betterment of our relationship with our neighbors to the south - and at the same time implement many of the programs still under study.

AMC has come a long way in the past two years, overcoming the problems of reorganizing the Commission and the establishment of a close rapport with the government of Sonora and the Sonora Commission. Notwithstanding all of these problems, it is generally believed that AMC and the State of Arizona have never before had such an excellent relationship with our friends from Sonora.

We should do even better during the coming year.

MISCELLANEOUS ACTIVITIES OF AMC IN 1976

On June 17-19, 1976, the five members of the Executive Committee of AMC visited Hermosillo, Sonora and Culiacan, Sinaloa at the suggestion of Governor Castro in order to interview the Governors of these States regarding future plans of the Commissions. Governor Carrillo of Sonora appeared most pleased to receive the delegation and informed them of his decision to nominate 68 Sonorans to their Commission to be assigned to various committees and that the appointments would be announced shortly. Governor Carrillo appeared delighted to learn that the Governor of Sinaloa, Sr. Alfonso G. Calderon had decided to join with the Sonora and Arizona Commissions.

The interview with Governor Calderon was most fruitful in that he confirmed his intention to join the Sonora and Arizona Commissions and proceed with the appointment of members of the Sinaloa Commission in the near future.

On July 16, 1976, Mr. Daniel Szabo, Senior Advisor, Economic and Social Development Department, Inter-American Development Bank of Washington, D.C. addressed a group of 50 Phoenix financial and business leaders at the Phoenix Country Club. The theme was related to socio-economic development of Latin America and the Bank's role in stimulating and accelerating that growth. The seminar was most enlightening and beneficial to all those in attendance.

On August 6-8, 1976, the President and Executive Director of AMC attended the meeting of the Plan of the Sea of Cortes at the invitation of the Sonora State Government, which was held in Hermosillo, Sonora, also attended by Ms. Mona Smith, Director of Tourism of Arizona. This plan calls for an elaborate project to develop the coast lines of the States of Sonora, Sinaloa and Baja California to attract tourism, particularly from the southwestern states of the United States and also directed to Mexican tourism. The multi-million dollar project is being prepared for presentation to the President-Elect of Mexico, Lic. Jose Lopez Portillo prior to his inauguration on December 1, 1976, since this fabulous project will require an extraordinary investment on the part of the Mexican Federal Government and investors in Mexico and abroad. The attendance of the President and Executive Director of AMC enabled them to further discuss the reorganization plans of the Arizona-Sonora Commissions, also with officials from Sinaloa attending the meeting.

On August 17-22, Antonio Certosimo, Executive Director of AMC attended the General Assembly of the Commissions of the Californias at La Paz, Baja California, and participated at the committee meetings in an effort to exchange information regarding common problems along the U.S.-Mexico Border. Lt. Governor Mervyn M. Dymally of California informed Mr. Certosimo of his plans to invite the Governors of the States of Arizona, New Mexico, Sonora and Sinaloa to the next General Assembly of the Commission of the Californias to be held in Newport Beach, California which has now been scheduled for January 12-15, 1977.

On September 6-10, 1976, Mr. Certosimo attended the inauguration by President Luis Echeverria of Mexico of the IV Mexican Trade Fair held in San Antonio, Texas, as the representative of Governor Raul H. Castro. Approximately 800 Mexican firms displayed their products in an area of more than 200,000 square feet which was sponsored by the Mexican Institute for Foreign Trade at the facilities of the Convention Center. An estimated 6,000 U.S. Buyers registered and Mexican officials predicted that the 1975's total of $80 million in sales to American firms would exceed the $100 million mark. However, the sudden devaluation of the Mexican Peso created considerable confusion among the Mexican exhibitors and most of them decided to accept orders from the U.S. Buyers subject to the fixing of the official exchange rate by the Mexican Government; subsequently, it is seriously doubted that the goal of $100 million in sales was reached. The Commercial Section of the American Embassy has promised to furnish AMC a copy of its report of the outcome of the MEX-FAIR 1976 which will be passed on to the Chambers of Commerce of Phoenix and Tucson in view of their interest in organizing a similar fair in either of these cities in the future.

At the request of the Mayor of Nogales, Sonora, AMC arranged the participation of the Luke Air Force Band and the Phoenix Boy's Choir at the inauguration of the auditorium in Nogales, Sonora on September 12, 1976, located at the Plaza Miguel Hidalgo. The cost of the transportation of the Luke Air Force Band and the Phoenix Boy's Choir group to and from Nogales borne by the Luke Air Force and the expenses of the Boy's Choir was paid by the Municipality of Nogales, Sonora at no expense to the Commission. The participation of the Arizona groups at this ceremony has helped to enhance our relations with the State of Sonora and Mexico.

We are pleased to report that as recognition of the influence and work effectiveness of the Arizona-Mexico Commission, Governor Raul H. Castro, President J. A. Riggins, Jr., Vice President Dino DeConcini, Executive Director Antonio Certosimo, and other prominent citizens of Arizona were guests of the Mexican government at the inauguration of President-Elect of Mexico, Lic. Jose Lopez Portillo on December 1, 1976.

On December 16, 1976, Mr. Frederick H. Sacksteder, Jr., American Consul General at Hermosillo, Sonora held a press conference at the Phoenix Press Club under the sponsorship of AMC and the Office of Tourism of Arizona, attended by representatives of the media and members of AMC which was given ample coverage throughout the State of Arizona and the neighboring States.

On December 17-19, 1976, Los Bravos of Tucson sponsored and organized the Davis Cup Tennis Tournament at the Tucson Racquet Club. This event was most successful and received the support and assistance by the Office of the Governor and AMC.

Last but not least, Governor Castro, the Board of Directors and Executive Committee of AMC wish you all a Happy New Year.

EXHIBIT D

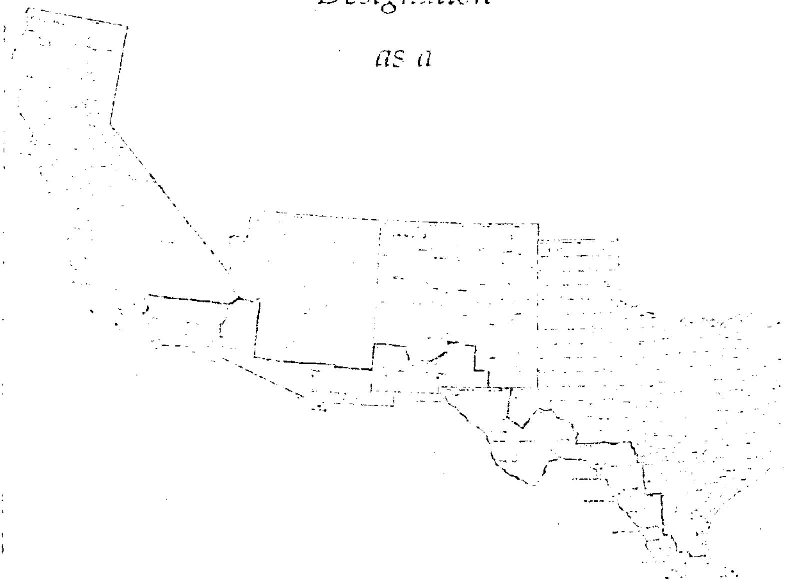
Arizona, California, New Mexico, Texas

Application

for

Designation

as a



Title V Regional Action Planning Commission

State of Arizona
Office of the Governor
State Capitol
Phoenix, Arizona 85007

State of California
Office of the Governor
State Capitol
Sacramento, California 95814

State of New Mexico
Office of the Governor
State Capitol
Santa Fe, New Mexico 87501

State of Texas
Office of the Governor
State Capitol
Austin, Texas 78711

June 30, 1976

The Honorable Elliott Richardson
Secretary of Commerce
U. S. Department of Commerce
14th and Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Mr. Secretary:

We believe that our states share a series of unique and very serious problems, problems directly resulting from our position along the border of Mexico. Nowhere within the community of nations does a boundary separate two countries with a greater economic disparity than that between Mexico and the United States. Congress has recognized the need to deal with these problems and the appropriateness of forming an economic development region to that end by specifically expressing its intent that the formation of our commission be invited and encouraged.

We formally request that, in accordance with the authority vested in you by Section 501(a) of Title V of the Public Works and Economic Development Act of 1965, as amended, you designate indicated counties of the States of Arizona, California, New Mexico and Texas as an economic development region. The enclosed document outlines prevailing economic conditions and presents facts which we believe make such a designation entirely consistent with Section 502(g) of the 1975 amendment to that Act.

We are convinced that a regional concept will prove most effective in approaching and dealing with the many problems. Your early approval of this request will permit continued efforts toward reaching our goals in the proposed regional area.

Sincerely,

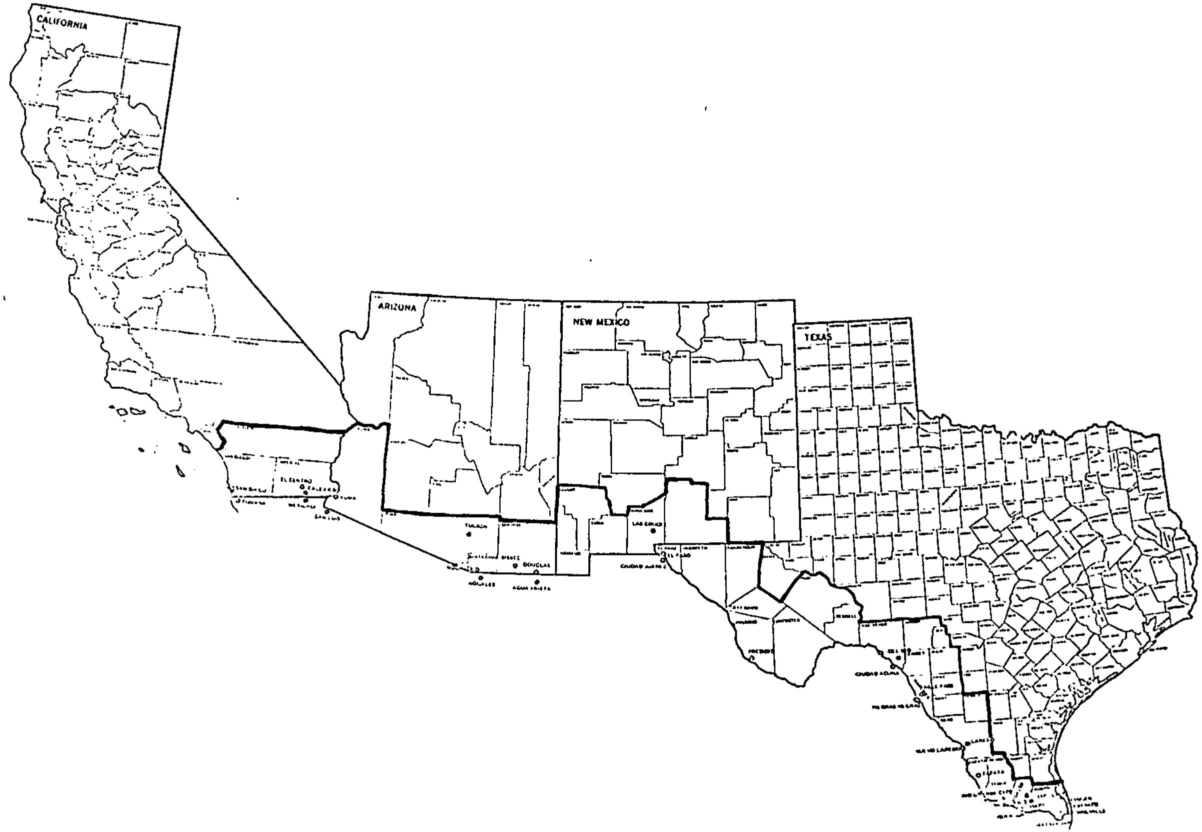
Raul H. Castro

Raul Castro
Governor
Arizona

Jerry Apodaca
Governor
New Mexico

Edmund G. Brown, Jr.
Governor
California

Dolph Briscoe
Governor
Texas


CALIFORNIA
ARIZONA
NEW MEXICO
TEXAS

Application for Designation
Under the provisions of
PL 94-188.00 a Title V
Regional Action Planning Commission
Submitted July, 1976

Raul Castro, Governor of Arizona
Edmund G. Brown, Governor of California
Jerry Apodaca, Governor of New Mexico
Dolph Briscoe, Governor of Texas

TABLE OF CONTENTS

FOREWORD

The United States-Mexico border extends some 2,000 miles from San Diego, California on the Pacific to Brownsville, Texas on the Gulf of Mexico. On the surface, life on both sides of the international border would appear to be tranquil and problem free. The pace is slow, the people apparently happy, and the land rich and scenic.

A closer look at this region disabuses the casual observer of any initial assumptions. Although the pace of life is somewhat related to the climate and culture of the area, it is also a by-product of an unemployment level in excess of that of the United States and in some areas, four times that of the nation as a whole. Poverty, like a malignancy respects no sovereignty, and transcends county, state, regional and international boundaries. The pervasiveness of an economically depressed area such as the proposed four state region is reflected in all aspects of society. The level of educational attainment lags behind the national level, median family income falls substantially below that of the nation; the effects are felt and reflected in the areas of health care services, transportation, housing, sanitation, mortality rates, the steady decline of jobs and opportunities, and the out-migration of labor and capital.

Historically the United States-Mexico border has been a conflict and poverty ridden area. This is explained by the existence of many innate friction-laden features chief among which is the greatest disparity in per capita income between any two bordering nations in the world. This disparity has led to an ever growing imbrogliation of the region's economy. Undocumented workers (illegal aliens) and commuters contribute heavily to the increasing levels of domestic unemployment.

Over the years there have been attempts at cooperative Mexican-American efforts to solve common border problems; but unfortunately, positive efforts have often been hampered by insufficient attention and commitment from the national level. The limited resources at the disposal of the municipalities in the proposed region have seriously diminished their ability to solve problems in areas such as San Diego-Tijuana, El Paso-Juarez, and Brownsville-Matamoros.

Traditional, individualistic, ad-hoc approaches to such matters as protectionism, immigration, smuggling, crime, unemployment, industrialization, transportation, pollution, energy, water, tourism, education, etc., are woefully obsolete in today's complicated environment. The economic health of the region is, and has been on the decline and constitutes a pernicious drain on the overall economies of our four states; ergo the scope of the border problems demand a regional approach and the establishment of a regional structure as provided for under Title V of the Public Work and Economic Development Act PL 94-188.

The region's problems are of common economic and social characteristics and extend across jurisdictional boundaries. Efforts of a single state (within the proposed four state region) to improve its own border area without corresponding efforts by the other three sister states would be highly difficult and just possibly overwhelming and ineffectual.

In 1975, Congress explicitly recognized the uniqueness and severity of a wide spectrum of socioeconomic problems in those states. An amendment to Title V provides for the establishment and funding of a Regional Planning Action Commission, specifically for "the region along the border with Mexico in the States of Texas, New Mexico, Arizona, and California."

There must be a coordinated plan of development along the entire border and within the entire region — so that no single state will be forced to shoulder all the responsibility in dealing with the related problems. There must be a multifaceted approach to integrate economic development with improvements in health care services, transportation facilities, educational opportunities and public works programs.

It is with the commitment of our four states to address the many problems affecting the designated region; and to meet the challenge of revitalizing this long standing economically depressed area that we have — through the submission of this document — indicated our respective intent to apply for designation and establish a Four State Regional Commission.

The following pages will address in detail the area, its people and problems. A break out of the proposed affected regions within each of the participant states has been appended for further detailed analysis. (See Addenda).

CHAPTER I

General Overview

The Land

The United States-Mexico border extends some 2,000 miles from San Diego, California on the Pacific to Brownsville, Texas on the Gulf of Mexico.

Geographic Divisions of the Border Region

The Border Region's physical economic resources are quite limited. Deserts, mountains, and above all, aridity are the dominant elements of the landscape. Exploitable minerals, with the exception of copper in Arizona and New Mexico and oil and gas in Texas, have not been found in any quantity. Although half the area is defined as farmland, much of it is poor pasture used for extensive grazing, and only in a few valleys can the land be cropped intensively with the help of irrigation.

Little or no commercial exploitation of forest resources is possible. Apart from a few areas of ponderosa pine, the Region's forest resources are composed of thin stands of low trees, deteriorating into chaparral.

The region's land resources are of some significance for recreation and tourism. Also, the vast areas of desert and near desert, unusuable for most economic activities, have been given a purpose by the Department of Defense and other organizations requiring empty space and clear skies.

Within the Region there are seven fairly distinct physical regions in terms of topography, geology, climate, and soils, which in varying degrees, have helped determine the pattern of economic development of the area in terms of the natural resources they provide and of the relationships that are possible with Mexico and with the rest of the United States. Following is a brief description of the physical setting and land resources of each region:

Coastal Plain (Western San Diego County, California)

The coastal plain is a 30- to 40-mile wide strip of land at the western end of the Border Region, with easy access southward to Mexico. The plain rises from sea level to about 2,000 feet at the foot of the Peninsular Mountains, and is composed of undulating, dissected marine terraces made largely of unconsolidated material. Near the coast there are also some areas of alluvial flood plain and alluvial fan.

The climate is one of winter rainfall and summer drought. Rainfall ranges from 10 to 20 inches, with added moisture from coastal fog in summer. Temperatures average in the sixties and there are more than 300 frost-free days each year near the coast, decreasing to about 250 days inland.

Most of the streams crossing the plain do not flow year round, and the area's water table is declining from overuse. The mineral content of the groundwater has increased in recent years.

The soils that have developed on the patches of alluvium are fertile and suitable for crops, most of which are irrigated. Elsewhere, chaparral and sagebrush are the most common types of vegetation, sometimes grazed, but also preserved for watershed protection. Exploitable minerals are few and limited to sands, gravel, and salts.

Peninsular Ranges (Eastern San Diego County and Western Imperial County, California)

East of the coastal plain the land rises to form a belt of mountains with steep boulder-covered slopes and sharp crests over 5,000 feet high, cut by narrow valleys. Because of the terrain on both sides of the Mexico border, there are no major ports of entry into Mexico.

The area has up to 40 inches of precipitation each year, mostly in winter, and sometimes as snow. Temperatures average in the sixties at lower elevations. Surface drainage is confined to a few intermittent streams, which are used for irrigation; water also collects in the sands and gravels of the valleys and can be tapped by wells.

Apart from some small patches of alluvium in the valley on which irrigated crops can be grown, soils are thin and infertile, and are covered with shaparral and brush. There is grassland and some woodland at high elevations, but none of the latter is of commercial value. There are no commercial minerals in the area other than some granite and a small amount of gold.

Imperial Valley (Imperial County, California)

The Imperial Valley is a flat area extending south of the Salton Sea and ranging in altitude from 240 feet below sea level to about 500 feet above. Large areas of alluvial deposits cover the Valley floor, although there are also extensive areas of unconsolidated sands and coarser material. The lowland extends south across the border, and is a major route into Mexico.

Less than 5 inches of rain falls each year in the Imperial Valley and the annual average temperature is in the seventies. Most of the Valley has from 300 to 350 frost-free days a year. Apart from a few very intermittent streams there is no surface flow of water into the Valley. The Salton Sea has a high mineral content which limits its usefulness. The water table is declining and the area relies heavily on water from the Colorado River, which flows at the eastern end of the Valley and has, in the past, flooded large areas of it.

Intensive irrigated agriculture is possible on the fertile alluvial deposits, with two crops grown on much of the land each year. Elsewhere, desert shrubs such as mesquite and cacti predominate. The most valuable mineral in the area is gypsum; sand and gravel and clays are also quarried.

Basins and Ranges of California, Arizona, and New Mexico (Eastern Imperial County, California, and counties in Arizona; and New Mexico)

On either side of the Imperial Valley in California, across most of Arizona and New Mexico, and reaching to El Paso, there is a topographically and geologically complex area of broad basins and plains separated by relatively narrow north/south trending ranges of mountains. In California and southwestern Arizona, the basins vary from 1,000 to 2,000 feet above sea level, with mountain ranges rising to 6,000 feet. To the east, the basin floors rise to 5,000 feet and several of the mountain ranges exceed 9,000 feet. The terrain is barren and rugged on both the Mexican and American sides of the border. Only where river valleys give access to the border have routes and crossings developed, such as Yuma on the Colorado, Nogales at the head of the Santa Cruz Valley, Douglas in the Sulphur Springs Valley, and El Paso on the Rio Grande.

91-139 O - 77 - 11

Rainfall is generally less than 10 inches a year in the basins, increasing to 20 or more inches at higher elevations. Most rain falls in winter, although there are also summer storms. Annual temperatures average in the seventies in the lower basins, which often have more than 300 frost-free days each year. At the higher elevations average temperatures are as much as 15° lower, and there is a greater incidence of frost.

Other than the Colorado and Gila Rivers at the western edge of the area, there is no year-round surface water. Streams beginning in the mountains dry up before they reach the basins. The water supply is currently being depleted and is deteriorating in quality.

On the flood plains of the Gila and Colorado, and in such areas of the Sulphur Springs Valley in Arizona and the Rio Grande Valley in New Mexico, intensive cultivation is possible on the alluvial soils; but the area of irrigated cropland is only 300,000 acres out of a total of approximately 14 million acres of farmland along this part of the Border. Desert vegetation and short grasses predominate in the basins, with grasses and low shrubs at higher elevations where there is more rain. In the Coronado Forest of southeastern Arizona and the Gila Forest in New Mexico, where the mountains exceed 9,000 feet, pinon pine and juniper grow and, in the highest areas, ponderosa pine. Forest resources are not suitable for extensive commercial exploitation, although there is a small cut each year. Where other than desert conditions prevail the land is used for livestock grazing.

Minerals are of major importance in this area. Metal ores have been mined for many years, and today the area supplies a major share of the country's copper requirements. Copper, lead, zinc, molybdenum, silver, and gold are mined in Arizona and New Mexico, often in association with one another. Sand and gravel, lime, and stone are also mined there.

The Great Bend of Texas (Western Texas counties, including El Paso, Brewster, Culberson, Jeff Davis, Hudspeth, Presidio, and part of Terrell County)

East of El Paso, in the area contained by the bend of the Rio Grande River, is the most rugged and topographically complex area of the Border. Numerous mountain blocks are separated by valley and basins without apparent order. Because of the terrain, access to Mexico is limited. A crossing point at Presidio has developed through a valley which opens into Mexico.

About 5 inches of rain falls in the basins, with up to 20 inches at higher elevations, most of it in late spring and early fall. The area lacks surface water other than the Rio Grande and Pecos Rivers and their major tributaries. Groundwater is available in the valleys. Average annual temperatures range from 50 to 65° F.

Some irrigated crops can be grown on the alluvium of the flood plains, but the area is not large. Elsewhere, the vegetation is typically xerophytic, with some pine and juniper occurring at higher elevations, and is used for grazing livestock. Mineral exploitation has been limited. Apart from sand and gravel, only talc and perlite (non-metallic minerals) are mined, both in small quantities. Exploration for minerals is currently taking place.

Edwards Plateau (Central Texas counties, including Val Verde and parts of Terrell and Kinney Counties)

The Edwards Plateau is a broad limestone plateau crossed by the Pecos River and descending in elevation from about 4,000 feet in the west to 1,000 feet in the east. Up to 35 inches of rain falls on the plateau annually, primarily in spring and autumn. Although there is little surface water in the area, substantial groundwater resources underlying the limestone supply wells and also springs along the Plateau's edge, some of which are the sources of rivers. The annual average temperature is in the sixties.

Apart from a few patches of alluvium in the valleys usable for irrigated crops, most of the soil is thin and alkaline. It does, however, provide some of the best quality pastureland along the border, the basis for extensive sheep grazing. Some natural gas and petroleum is obtained in the area.

Rio Grande Plain (Central and Eastern Texas counties, including Maverick, Webb, Zapata, Starr, Hidalgo, Cameron, and part of Kinney County)

The Rio Grande Plain extends from the southern margin of the Edwards Plateau to the Gulf of Mexico. There is little relief other than that created by the broad shallow valleys that cross it. There are a number of major crossing points from which routes lead south into Mexico.

Rain, falling mostly in spring and fall, totals from 20 to 35 inches. In this area the Rio Grande dries up along many stretches during some period of the year and there are no perennial tributaries on the Texas side of the river. Groundwater is relatively abundant in many parts of the plain. The Falcon Dam and Amistad Dam control the flow of the Rio Grande and provide water for irrigation in the lower Rio Grande Valley. Temperatures average around 70° F annually and there are more than 200 frost-free days each year. The area has occasional devastating frosts which create extensive crop damage.

Considerable areas of fertile soil occur in the lower Rio Grande Valley and there are large acreages of cropland, both irrigated and unirrigated, in Cameron County and Hidalgo County. On the poorer soils brush and low shrubs predominate and are used for grazing livestock.

Minerals are of some importance to the area. There are a number of gas and oil fields, and production of both fuels has been increasing, although compared with other areas in Texas the output is relatively small. Other minerals include sand and gravel, stone, pumicite, and clays, none of great value.

THE PEOPLE AND THE PROBLEMS

The Culture

The border between the United States and Mexico has produced a distinct and vital culture. It is a rich blend of Indian, Spanish, Mexican, Chicano, and Anglo values and traditions. The first inhabitants of the area appeared some 4000 years before Christ. Subsequent pre-Columbian civilizations, along with the ancient Indians, left vestigial imprints of their cultures which are evident in a variety of ways. The food, architecture, dress, art, social and even economic structures still may be seen in one form or another today, on both sides of the frontier. Perhaps most important — certainly most prevalent — is the set of social relationships and mores which have developed to characterize the border culture and which still dominate attitudes and behavior.

The tribal and pueblo societies which were scattered throughout the region prior to Spanish conquest still exist in many areas. Although the Spanish Crown imposed its rule and form of government on what is presently Mexico and the southwestern United States, many Indian communities successfully resisted complete domination and assimilation. Even today, the government has been unable to penetrate all portions of extremely isolated northern Mexico where many Indians live much as they did prior to the Conquest. And in the United States, Navajos, Apaches, and Pueblo Indians still retain a unique degree of sovereignty over what remains of their treaty or original lands.

While the nations on both sides of the border are modern states, they have yet to integrate the Indians fully. Unfortunately, the desire of the indigenous people in Mexico and the United States to maintain their cultural integrity has all too often forced them to the periphery of the economic, social, and political mainstreams of national life, depriving them of an equitable share of the national wealth and full political participation.

A major cultural attribute of the Mexican and Indian cultures is the value placed on land. This is not necessarily a value measured in terms of dollars or pesos. Land holds for the individual an almost intangible sense of security. Social scientists have posited many theories to explain the existence of this cultural phenomenon. But whatever the ultimate cause for the strong relationship to land, it will no doubt be an important variable to be considered in suggesting alternative solutions to the economic and social problems of the border region. Limited access to land for housing, not to mention farming, is already causing great consternation among the authorities in Mexico, for example, who have to deal with a ceaseless influx of *paracaidistas* or poor people who are literally invading parcels of public and private land.

The cultural bonds linking the peoples of the two sides of the frontier are vigorous and permanent. What is more, they transcend forcefully the arbitrary political boundary which separates Mexico and the United States. They are testimony to the fact that the problems of social and economic development of the border region cannot be fully comprehended or appreciated in cultural isolation. Indeed, if solutions to the problems are to be effective, they must be devised and applied in the context of mutual harmony between Mexico and the United States. That an imaginary line exists to divide Mexican from American is little more than historic fate and political fact. Economic and social stagnation simply do not recognize such political divisions. Hence it is all the more necessary to conceive of the border region not only as an economic unit, but a cultural one as well.

One final caveat needs to be mentioned. Any economic development models considered for application to problems of the border *must* be modified to account for the regional culture. Countless experiences in Latin America should convince even the most skeptical developmentalist that use of traditional or classic United States models in culturally (and climatically) different areas will not work.

The History

Nowhere within the community of nations does a boundary separate two nations with greater economic disparity than that between Mexico and the United States. In 1970 the gross national product for the United States was over $974 billion; for Mexico it was $33 billion. The per capita national income in the United States was approximately $4,300, while in Mexico it was slightly above $500. Fred H. Schmidt, a keen observer of border economic affairs, has written that "neither the per capita gross national product nor the per capita income of any country in the world even comes near the amount of the difference in per capita income between the United States and Mexico."

Living as neighbors with the reality of these vast differences has led to the implementation of a number of policy measures by both nations. The usual concern about the impact of these policies is focused on the effect of one nation's action on the welfare of the other. Scant attention is given to the significance of border practices and policies of each nation for its own people.

In the southwestern United States, Mexican-Americans have long provided the mainstay of the unskilled and semi-skilled labor force in the urban and, especially, the rural sectors. In 1970 the number of Mexican-American family members in the Southwest who were classified as officially living in poverty exceeded 1.2 million (or 26.8 percent of the estimated Mexican-American population). In addition, over 83,000 unrelated individuals were living in a poverty status (or 43.2 percent of their total number). Although poverty has long been a way of life for large numbers of Mexican-Americans, the continued existence of such a high magnitude of regional poverty is partly attributable to what can be fairly described as an unofficially sanctioned open border policy of the United States. To the degree that this is the case, economic conditions at the border approach institutionalized poverty, perpetuated by policies within the realm of controllable events.

Like any region, the southwestern region of the United States has unique characteristics. The rugged terrain and the dry climate have given rise to a population pattern of scattered oasis communities. Historically the industrial base of the region was built upon highly labor-intensive work in agriculture, ranching, mining, and railroading. Large corporate enterprises have been the rule. To meet their labor needs, these corporate entities have aggressively sought to tap a variety of sources of low-wage, unskilled, and rightless workers.

Immigration has been defined as "the passing or removing into a country with the purpose of a permanent residence". If this definition, which has been accepted legally, is applied to the border region, complications in arriving at accurate computations are multiplied. The place of residence is the region, and thousands of Mexican people have been accustomed to living in the area for generations. The permanence of residents is not destroyed by the mere crossing of a line which is for the most part imaginary, regardless of the side of that line on which one happens to be born.

The Mexican immigrant, unlike those from Europe and other parts of the world, has no great psychological obstacles in the path of his migration. No oceans have to be crossed, no roots have to be torn up, and there is no reason for a "sense of severance" such as is associated with a trip from Europe. One can travel from Chihuahua to Santa Fe with very little feeling of abrupt change in the physical environment. An Immigrant may travel over trails rooted deep in the history and tradition of a Spanish past, speak Spanish all the way, and seldom be outside the environs of Spanish culture. Mexicans have not immigrated to this region, but rather they have returned. The process has been more akin to visiting relatives than to establishing immigrant colonies in a new country, as is the case with the Europeans. Geographically, as well as economically, the northern states in the Republic of Mexico are more closely allied to the southwest region of this country than to Mexico.

From an historical perspective, the territories of California, Arizona, New Mexico and Texas were once part of Mexico, but these lands were deeded to the United States as a result of the Mexican-American War of 1846-48. The treaty which culminated that war guaranteed those Mexican citizens who suddenly found themselves to be American citizens certain basic rights — one being unrestricted travel between the United States and Mexico. As a result of this circumstance no one bothered to count migrants from Mexico.

The first major immigration from Mexico occurred during the period 1909-1930. During this time roughly 750,000 Mexicans were legally admitted to the United States. Any mass migration of people is caused by both "push" and "pull" forces. In this case, the "push" was the mass violence of the Mexican Revolutionary War (1910-1919) and the "pull" was the labor shortage in the Southwest caused by events associated with World War I.

Immigration from Asia had been curtailed earlier by the Chinese Exclusion Act of 1882 and Gentlemen's Agreement with Japan of 1907. Moreover, the waves of European immigrants ceased with outbreak of World War I and the temporary immigration restrictions imposed by the United States in 1921 which became permanent with the

National Origins Act of 1924. Immigrants from Mexico, however, were excluded from the coverage of this act. Indeed, legal immigration from Mexico was not numerically restricted until 1968, when Mexicans were included within the quota of 120,000 immigrants per year allowed from all Western Hemisphere nations. Legal immigration of Mexicans to the United States since 1900 has totalled about 1.4 million persons.

The tide of Mexican immigrants receded with the onset of the Great Depression. A policy of forced repatriation of many Mexicans who had not offically filed and completed immigration and naturalization papers was initiated. The rationale was that unemployment was high and, with a plentiful supply of Anglos to meet the demand for cheap laborers, the Mexicans were a redundancy. The fact that some of these Mexicans had married American citizens and that some had children born in this country was not considered of consequence by government officials. Policy makers were concerned with political expediency, not principle. Subsequent border policies have continued to reflect this basic theme.

By the 1940's the economic situation had changed markedly. The military requirements of the nation and its related manufacturing needs led to a labor shortage in the agricultural sector. The growers of the Southwest had foreseen these developments prior to the Pearl Harbor attack in 1941. As a result they made two fateful decisions:

1) The pool of cheap labor in Mexico was to be tapped to fill the manpower deficit;
2) The federal government was to be the vehicle of deliverance.

Although the initial requests of United States growers for the establishment of a contract labor program were denied by the federal government in 1941, they were favorably received by mid-1942. Mexico, however, balked at the proposal for a formal inter-government agreement. The Mexican economy was flourishing; there were fears of Mexican workers being drafted; there were bitter memories of the repatriation drive of the 1930's; and there was knowledge of the discriminatory treatment accorded people of Mexican ancestry throughout the Southwest. The unregulated hiring of Mexican citizens by foreign nations had been prohibited by Article 123 of the Mexican Constitution of 1917.

Lengthy negotiations between the two governments resulted in a formal agreement in August 1942. The Mexican Labor Program, better known as the "bracero program," was launched. Workers were to be afforded numerous protections with respect to housing, transportation, food, medical needs, and wage rates.

For the growers the bracero program was a "bonanza." Braceros were limited exclusively to agricultural work. Any bracero who found a job in another industry was subject to immediate deportation. The significance of the program for Chicanos is obvious: the agricultural labor market of the Southwest was removed from competition with the nonagricultural sector. Although braceros were not supposed to depress wage rates, the program clearly had that effect.

Initially the program was under the control of the Farm Security Administration, which administered the program according to the letter of the law. In July 1943, however, supervision was shifted to the grower-dominated War Food Administration. Many of the worker protections were no longer enforced. In fact, Mexico banned the braceros from working in Texas in 1943 because of abusive and discriminatory treatment of both Mexicans and Chicanos. Illegal entrants, for whom not even nominal protections were provided, quickly filled the Texas vacuum.

When the agreement ended December 31, 1947, the program was continued informally and was unregulated until 1951. In that year, again under the cloak of war-related labor shortages, the bracero program was formalized into P.L. 78. This time Texas was included. The program continued to function until it was terminated by the United States on December 31, 1964.

Although some defense of the program may be offered as a wartime emergency program, a review shows that most of the program's lifespan and most of its participants came during eras of peace (See Table 1). The bracero program, a classic example of how national border policies have adversely affected the native Chicano population, seriously disrupted the labor exchange process in rural labor markets. The relative wages of agricultural workers in the Southwest declined sharply during the program's life. Under such circumstances the supposed domestic labor shortage can only be dismissed as an artificial creation of man-made policies. Of greater significance, however, was the indifference that the federally sanctioned program manifested toward the welfare of Chicanos.

In 1973 the government of Mexico indicated that it wished to negotiate a new farm labor agreement with the United States. Under the proposed terms Mexican contract workers would be paid wages identical to those of United States farmworkers. Even under this arrangement, however, the effect could only retard otherwise upward pressures for farm workers' wages and benefits while also making it more difficult for farm workers to unionize. The proposal was offered by Mexico as one solution to the escalating problem of illegal entry. Yet the proposal contained no indication of what would prevent Mexican workers not included in the quotas from crossing.

Corresponding to the Mexican proposal, a bill (H.R. 3355) was introduced in the U. S. House of Representatives in 1973 to amend the Agricultural Act of 1949 to permit recruitment of agricultural workers from Mexico. Essentially the bill proposed to reinstitute the old bracero program. The bill, currently, remains in the House Committee on Agriculture.

Paralleling the flow of Braceros during the 1950's and early 1960's has been the mammoth flow of illegal Mexican aliens since 1964. Undoubtedly, many of these illegal aliens were former Braceros. They had been attracted to the Mexican border towns from the rural interior of Mexico by the existence of the former contract labor program. Thus, there is some truth to the proposition that the United States created the illegal alien problem itself. However, it is too simplistic to conclude that the problem would not have eventually surfaced had the Bracero Program not existed.

The absence of an agreement between Mexico and the United States to provide a contracted labor force had little effect on Mexican nationals. They continued to travel to the United States in search of employment and opportunity because of the depressed economics in the Mexican Republic. When one examines the immigration problem, it can be viewed as one that is directly related to the ups and downs of the American economy. Thus, the solution to this problem depends in large part on the action of the United States, and in particular, the actions of those states which lie next to the Republic of Mexico.

Table I

NUMBER OF BRACEROS AND DEPORTED ILLEGAL MEXICAN ENTRANTS, 1942-1973

Year	Braceros	Illegal entrants returned to Mexico
1942	4,203	10,603
1943	52,098	16,154
1944	62,170	39,449
1945	120,000	80,760
1946	82,000	116,320
1947	55,000	214,543
1948	35,345	193,852
1949	107,000	289,400
1950	67,500	469,581
1951	192,000	510,355
1952	197,000	531,719
1953	201,380	839,149
1954	309,033	1,035,282
1955	398,650	165,186
1956	445,197	58,792
1957	436,049	45,540
1958	432,857	45,164
1959	437,643	42,732
1960	315,846	39,750
1961	291,420	39,860
1962	194,978	41,200
1963	186,865	51,230
1964	177,736	41,589
1965	20,286	48,948
1966	8,647	89,683
1967	7,703	107,695
1968	0	104,520
1969	0	189,572
1970	0	265,539
1971	0	348,178
1972	0	430,213
1973	0	609,673

Source: U.S. Department of Labor; U.S. Department of Justice.

CHAPTER II

INTERNATIONAL IMPLICATIONS

Description of the Mexican Economy; its impact this side of the border.

Mexico is primarily an exporter of raw materials and services. For example, in the first quarter of 1975 Mexico exported a monthly average of 2,882,000 tons of raw materials including crude petroleum. During the same period material for the twin inbound plants concept contributed 90.1 million dollars to the Gross Domestic Product (GDP) and Border Transactions (See Note) contributed $342.2 million to the GDP.

Agriculture plays a minor role in the northern border communities of Mexico. In 1970, out of 13.1 million 'hectareas' available for cultivation only 76,000 were cultivated. Sixty-five percent (65%) of this area is dedicated to pasture land, and is also characterized by highly mechanized agriculture.

The northern zone is also peculiar in that private ownership of land is relatively high when compared to the rest of Mexico. This is important to the United States border region because it shows the level of Mexico's federal control in the area. Other areas in Mexico have a higher rate of public-owned land as a result of the Agrarian Reform, which came about at the close of the revolutionary movement, when the Constitution of 1917 was adopted. Article 27 of the Mexican Constitution established the fundamental pinciple that the Nation is the original owner of the land and has the right to transfer its dominion in order to constitute private property, imposing such conditions as the public interest may dictate.

NOTE: The Border transaction is a special report developed by the "Banco de Mexico" to measure all the operations of purchases and sales of merchandise and services performed in the border area. To be reportable, the operation must result in an exchange of United States dollars for Mexican pesos or the reverse.

Despite the efforts to redistribute land, an estimated four million farmers are still landless — a very serious problem in view of the increasingly limited amount of land available for distribution. To remedy this, the Mexican government initiated programs for rural industrialization and labor intensive public works in order to absorb unemployed workers, raise rural income, and avoid excessive migration. Despite these efforts, a large part of the rural population still migrates north to the United States-Mexican border and from there as undocumented workers to United States cities in pursuit of jobs.

Industry has proven to be the fastest growing aspect of the Mexican economy in recent years. Public works and direct investment by the federal government in specific industrial activities have induced the private sector to accelerate its rate of investment. The government has also adopted various protective measures for the development of national industries. Among these are:

1) The industrial parks project;

2) The establishment, as a policy of industrial development, of the "in-bound plant" system (originally restricted to the border zones but since October 1972, opened to the whole country;)

3) And the policies of industrial decentralization (consisting of tax incentives and preferential interest rates.)

This last measure was enacted to combat the problem of excessive concentration in certain regions of the country, primarily the northern border with the United States, and to simultaneously support the regional development plans in progress.

Inflation is one of Mexico's worst economic headaches. To deal with the growing rate of inflation the government took steps to raise the wages of the workers. The Mexican Government's National Wage Commission's decision on "1976 minimum wage levels," raised minimum wage by an average of about 21%. However, wages are not the only production cost that have been rising recently. In October 1975 the government authorized the steel industry to raise its prices by an average of 15%. Two months earlier electricity prices had risen between 10% and 30%. Telephone rates increased January 1, 1976 by an average of 22%. At the same time federal tax on telephone usage went up and initial telephone subscription charges were raised. Reflecting some of these changes, the general production cost index (January 1970 = 100) was standing at 171.7 by the end of November 1975 compared to 152.6 twelve months earlier. The biggest increase had occurred in the finished metal products component sector of the index, where the year-to-year increase was from 139.9 to 178.5.

The increase in minimum wages is only part of the rising labor cost story. Annual renegotiation of collective wages and fringe benefit agreements no doubt added to inflation in 1976. The escalation will hinder the government's efforts to reduce unemployment because private employers, in particular, will be more anxious than ever to use labor-saving techniques. The trend is clearly visible in agriculture where the continuing mechanization boom is largely motivated by the need to keep down costs and increase efficiency. This has resulted in more rural unemployment at a time of declining work opportunities elsewhere. Currently, the official number of unemployed stands at almost 17% of the labor force, and another 30% may be underemployed.

For this plan, however, the northern border must be considered independently from the rest of the nation, because it not only played an intrinsic role in the development of the United States Border region but also because this northern zone of Mexico has, during the last few years, been of particular interest to the Mexican government.

In general terms the reasons for this interest have been:

1) The important part that the border zone plays in attracting the United States dollars.

2) The inter-relationship between the northern zone and the rest of Mexico.

3) The many economic problems accumulated during the past 20 years because of the tremendous population growth in the area.

The United States-Mexico border zone consists of 35 municipalities, (county equivalency) inhabited by over 9.2 million persons. According to a 1974 estimate, over 60% of this population resides in the border states of Nuevo Leon, Chihuahua, and Tamaulipas. It is estimated 2.7 million persons live within communities next to the United States-Mexican Border. The population continues to grow at a much higher rate than the Mexican nation as a whole (3.9% versus 3.1% for the nation).

The growth of the area and its impact on the United States side is an important factor especially because townships along the Mexican border have three times the northern zone growth rates. Projections for 1990 show United States border communities will have approximately one million people each.

The Border Industrialization Program was designed to provide jobs for the surplus Mexican labor force. The program was conceived by Octaviano Campos Salas, Mexico's Secretary of Industry and Commerce in 1965, after a tour to the Far East where he inspected American-owned plants in Taiwan, Japan, and Hong Kong which utilized foreign labor for assembly of American components. Feasibility studies indicated the potential for utilizing Mexico as an alternative to the Far East. Although Mexico's labor costs (See Table II) were generally not as low as those in the Orient, there were savings on transportation costs and economics of management as a consequence of the advantages of location proximity.

TABLE II

MINIMUM DAILY SALARIES IN SELECTED BORDER CITIES, 1970-1971*

City	Mexican Pesos	United States Dollars
Ciudad Juarez	36.00	2.38
Ciudad Acuna	29.80	2.38
Piedras Negras	29.80	2.38
Matamoros	33.75	2.70
Nuevo Laredo	33.00	2.64
Reynosa-Rio Bravo	33.75	2.70

* United States dollar = 12.49 Mexican pesos.
Source: Mexico, Comision Nacional de Salarios Minimos, *Salarios Minimos* (Mexico, 1970).

The program allows wholly-owned subsidiaries of foreign companies to establish plants within a 12-mile zone or 25 kilometers of the border in Mexico. Under the provisions of the program, the companies import materials and equipment into the border zone at reduced rates, and in many cases, duty free. The companies are allowed to export their products duty free. Key personnel are granted Mexican work permits, although the Mexican Government encourages the hiring of its own nationals in management positions.

The Mexican Border Industrialization Program is a unilaterial development program which requires no alterations in United States tariff positions. The program is designed to utilize the existing provisions under which United States components are assembled in the Far East and imported to compete with wholly foreign goods. These regulations pertaining to the foreign assembly of components have been in existence since 1930; they were ratified by the United States Custom Court in 1954 and by the Tariff Classification Act in 1962.

The incentives these provisions offer to the foreign assembly of United States components are that duties imposed on products upon their importation to the United States are based only on the value added in assembly. Value added is defined as the total of foreign labor costs, overhead costs of foreign plants, and an estimated profit on the foreign operation.

The response to the Border Industrialization Program can be measured in the number of plants established in Mexico. In October 1967, there were 73 plants authorized to function as border plants which represented a $6 million capital investment. By June 1969, there were 147 border plants authorized, representing a capital investment of $14.2 million.

The Mexican Border Industrialization Program, during the first half of 1972, encompassed some 350 firms employing about 46,000 persons. Electronic assembly increased predominantly and textile operations declined.

On October 20, 1972, the Mexican Government announced a new regulation concerning the Border Industrialization Program. This regulation contained several major changes in the scope and activity of the program. The three most important changes were:

1) The authorized area for operation of assembly plants was expanded to include the entire country instead of being limited to border and coastal areas. This was renamed the "inbound" program.

2) Permission could be granted for some assembly products to be sold in the domestic Mexican market.

3) Assembly plants previously operating under free-zone regulations were not required to register under the special assembly regulation.

The name "Maquiladora" was given to all enterprises which:

1) With the use of temporarily imported production machinery, exports the entirety of its production.

2) With an individual plant already in operation to serve the internal market, changed its operations to export either part or all of its production.

By the end of 1973, this program encompassed 426 firms employing some 58,000 Mexican workers.

By April 1973, because of the United States recession and higher salaries on the Mexican side, more than 30 plants had closed and another 60 had made substantial layoffs. Employment dropped from 80,000 to about 45,000.

It would be difficult to say that the pay hikes in Mexico had affected the corporate advantages of the "Maquiladora." While labor costs in Mexico increased from $.50/hour (United States currency) in 1973 to $.90/hour (United States currency) in 1975, the United States labor costs increased from $1.60/hour to $2.10/hour maintaining a profitable difference of $1.20. This difference in the wage structure was expected to increase as the United States minimum wage increased to $2.30 in 1976 as required by law.

Dealing with Mexican Counterparts

The mixture of cultures has reached far beyond the 15-mile border zone arbitrarily set by the respective governments. This influence has acted subconsciously on the people living as far as Monterrey in Mexico and San Antonio or even Dallas in the United States. There is evidence that middle and even the lower income groups in Monterrey have become "Americanized" in their styles and socio-economic characteristics which affect interpersonal and business relationships.

In the absence of a truly systematic study of border cultures, there is little more than newspaper information, anecdotes, hearsay and speculation on the relationships and dealings of Americans with their Mexican counter-parts in the border region. Tens of thousands of Americans cross the border on weekends, and tens of thousands of Mexicans cross over to the American side during the week. The Americans apparently go over to enjoy the warm leisure of Mexico, buy its folk art and enjoy the Mexican way of life. The Mexicans, during the week, come to the American side to buy its industrially produced goods, and to work on this side. As many as possible will bring their children to school.

Trade and Tourism

The geographic distribution of Mexico's foreign trade has changed significantly in the last thirteen years. The importance of the United States as buyer-and-supplier in Mexico's total trade declined from 72.1% in 1960, to 61.7% in 1965, and to 57.8% in 1975. This reduction directly resulted from Mexico's federal trade policy measures designed to diversify the country's markets.

The United States is, however, still Mexico's most important trading partner. Inclusion of Mexico in the United States General Preferences System (GPS) on January 1, 1976 has important implications for Mexico's export trade. The GPS grants non-reciprocal, non-discriminatory tariff concessions to 98 nations and 39 non-independent territories, described as "Third World" countries. Essentially it is a preferential tariff scheme, with safety clauses which permit the United States to exclude products from the GPS. Safety clauses can be applied when preferential imports in a calendar year reach $25 million dollars or the equivalent of 50 per cent of total imports in a particular category of goods. The GPS applies to some 2,700 processed and semi-processed goods, 950 of which figure among Mexican exports to the United States in 1974. These will now enter the United States duty free. Only 61 product groups will be subject to full tariff rates because of exclusionary clauses; these represented over 25% of Mexico's sales to the United States in 1974.

Tourists to Mexico have traditionally constituted an important source of trade and foreign exchange. During the 1960's, net income from this source rose 7.2% annually, with an even greater increase in 1970. In 1972, Mexican income from American tourism reached 897.7 million dollars.

Incomplete 1975 figures show a declining number of tourists, falling revenues and a rising number of Mexican tourists spending money abroad. In the first ten months of 1975, the 2.59 million foreign tourists visiting Mexico (excluding border crossover traffic) was 4.6% lower than in the same period of 1974. Income derived from tourism by Mexico decreased 7.5% from 1974 to 1975, even taking into account the balance of border transactions. If capital transactions, other than tourism were taken into account, the picture would possibly look less bleak. The national tourism promotion fund, (Fonatur) reported that during the 1974/75 fiscal year it channeled $113 million dollars into tourism development projects (mainly Cancun), mostly in the form of foreign promotion. Mass cancellations of United States tourist visits to Mexico, as a result of the U. N. Zionist resolution, continue to cause decline in tourist trade. In addition, Mexico's rate of inflation has been consistently higher than that of the United States, its main source of tourist income. Mexico has therefore grown more expensive in dollar terms, to the advantage of competing areas like Florida, Hawaii, the Virgin Islands and other Caribbean resort areas, particularly for persons residing outside of the United States-Mexico border area.

Other Problems

In the time since the Ford-Echeverria meeting in Arizona-Sonora, October 1974, United States-Mexican relations have improved very little. The old problems still remain: the Mexican undocumented workers; the drug trade; and Mexico's flirtation with OPEC. Meanwhile, the United States government is unhappy with Mexico's recent decision to establish an "exclusive economic zone" of 200 miles from Mexico's shores (the previous territorial limit was 12 miles). This would close the Gulf of California to United States fishing vessels.

CHAPTER III

STATEMENT THAT THE REQUIRED HOMOGENEITY DOES EXIST

Existence of Homogeneity

Section 501 (a) states "The Secretary is authorized to designate appropriate economic development regions within the United States with the concurrence of the States in which such regions will be wholly or partially located if he finds, (A) that there is a relationship between the areas within such region geographically, culturally, historically, and economically, and (B) that the region is within contiguous States."

The proposed Title V planning region clearly meets all of the aforementioned criteria as established and required by law.

The history of the region links each of the four states. Geographically they are similar, their respective economies have the same affective denominators; and finally there exists a very definite cultural relationship.

There is no question of homogeneity in the proposed region; it clearly exists by all standards, and hence lays the foundation for the creation of a regional commission.

CHAPTER IV

ELIGIBILITY CRITERIA UNDER TITLE V

The Public Works and Economic Development Act of 1965, Title V, states that the U. S. Secretary of Commerce must find that the area to be considered eligible for Regional Development Commission status has lagged behind the U. S. "in economic development for the following reasons, among others."

(1) The rate of unemployment is substantially above the national rate,
(2) The median level of family income is significantly below the national median,
(3) The level of housing, health and education facilities is substantially below the national level,
(4) The economy of the area has traditionally been dominated by only one or two industries which are in a state of long-term decline,
(5) The rate of out-migration of capital or labor or both is substantial,
(6) The area is adversely affected by changing industrial technology,
(7) The area is adversely affected by changes in national defense facilities or production,
(8)Indices of regional production indicate a growth rate substantially below the national average, and
(9) Economic consequences of the migration from Mexico.

As the following text will spell out, the proposed region qualifies under all tests as delineated.

SOCIOECONOMIC STATUS OF THE REGION

According to most socioeconomic indicators, the area which comprises the proposed Regional Border Commission is significantly underdeveloped and lags substantially behind the rest of the nation. Although some enclaves of relatively healthy economic activity exist, they are few and have scarcely any beneficial impact on the region as a whole. Then, too, the proximity of Mexico continues to pose a special set of problems for the area which helps to impede development. The persistently large influx of illegal aliens, especially, has proven to be a major depressant to the economy.

There is more to the general problem of a stagnant border economy than the presence of millions of undocumented workers. As will be borne out in this report, a shifting economy has resulted in severe labor dislocations, a weakened tax base, and a chronic maldistribution of resources and income. What follows is a regional overview of the economy of the border region as measured by several leading economic and social indicators. While the depressed state of the regional economy is clear, three caveats regarding interpretation of the statistics need to be explicated. First, formatting differences among the four states across which the region cuts made data comparisons difficult and even misleading at times. Second, in several instances data lacunae occurred, making more precise illustration of the regional economy impossible. Third, conflicting definitions of some measurements prevented aggregation for regional application. These difficulties in data collection and use, incidentally, point to a critical need which could be an initial priority for the Regional Border Commission. That is, there is urgent need to establish a common and complete data base for the border area. This, needless to say, would be a basic step in the developmental enterprise.

UNEMPLOYMENT

Unemployment is severe in every area of the region. The border counties in Texas, for example, experienced a 10.0 percent unemployment rate in 1975, as compared to the national average of 8.5 percent. Even more troublesome is the existence of widespread underemployment. This phenomenon is harder to document — although statistics on median family income will serve as a partial indicator — but continues to be both a cause and effect of economic stagnation. In human terms, the underemployed are caught in the middle of what has become a classic dilemma. They earn too much income to be entitled to the benefits received by the unemployed, but their wages are too low to provide more than subsistence living. The economy of the region is principally agricultural. Traditionally this sector has paid low wages and work is seasonal. This means, of course, that prevailing wage scales tend to be low and income unevenly distributed. The presence of literally hundreds-of-thousands of potential illegal aliens in Mexico waiting to cross the frontier to work for low wages in the fields and service industry along the border, depress even more a crippled economy. Finally, the mechanization of farming has led to a net reduction in agricultural jobs across the region. Of course this problem is international in scope and eventually will have to be dealt with at that level. But the reality of economic underdevelopment in the U.S. border region remains.

INCOME

Widespread economic depression throughout the border region is reflected not only in persistent and pervasive unemployment, but in shockingly low figures on income. The median family income in Zapata County, Texas, for one example, was $3,294 as of 1974, or a more than 277 percent difference from the national average. While the statistics fluctuate, the general picture they illustrate is one of ubiquitous poverty, especially among the region's large Spanish-speaking population.

Several reasons account for low income. The dominance of agriculture as the major industry in the region has had a profound effect on the wage structure. Traditionally, stoop labor which is employed in the field has been paid among the lowest of all non-skilled and semi-skilled labor. Only recently have farm workers been covered by minimum wage laws and been able to gain some benefits from limited collective bargaining. Then, too, farm work is seasonal. This results in stretching out over a twelve-month period wages which have been earned for six or seven months work — depressing even more initially small incomes. Finally, there is the major problem unique to the region — large scale international migration, both legal and illegal. Undocumented workers, especially, have helped to maintain very low wage levels in agriculture, manufacturing, and many service industries. The future looks bleak, given present conditions and trends. Massive in-migration to the border area from the interior of Mexico coupled with declining jobs and increasing competition augur ominously and call for immediate and decisive corrective action.

HOUSING

To even the casual observer, the condition of housing throughout the border region is appalling. Overcrowding in the *barrios* has been acute for the past several years and is becoming worse daily. Again, the pressures from massive migration in central Mexico to the border area south of the Rio Grande have intolerable demographic tensions. Immigrants from Mexico, illegal and legal, spill over into U. S. cities and towns along the frontier every day. As the major population growth, both from in-migration and high birth rates, appears to be in the poorer sections of the border cities, the impact on housing facilities is staggering. Aside from some attempts at public housing projects, little has been achieved by way of alleviating the lack of adequate shelter. Among the Spanish-speaking population of Imperial County in California, for instance, overcrowded houses account for 17.3 percent of all housing — or more than 800 percent above the national average!

The condition of housing throughout the border region should come as little surprise, considering low income levels and widespread unemployment. It is another indicator of the extent of the chronic underdevelopment which has crippled the region for decades.

HEALTH

Equally bleak are health statistics for the border region. Hidalgo County, New Mexico, for example, has one physician for 5200 people. This is less than one-fifth the national average. Part of the health problem is attributable to the fact that most of the border region is rural. Generally throughout the nation as a whole rural areas suffer severely from a lack of adequate medical facilities and personnel. The border region is no exception to this rule and, indeed, exhibits an even greater absence of sufficient health care resources. Even where the number of physicians and allied medical personnel per population begin to approach the national average, another problem exists. Most physicians and dentists do not speak Spanish and are not familiar with Mexican culture. The latter is especially important in identifying physical ailments and in treating psychosomatic and psychological disorders. Substantial reliance on *curanderos* still exists. These community healers are culturally familiar and acceptable and, above all, their services are within the economic reach of the poor. So the problem becomes not only one of an insufficient number of medical practitioners, but a need for health care personnel knowledgeable about border culture and conversant in Spanish.

EDUCATION

If the educational system throughout the border region were significantly improved, it is possible that training for Spanish-speaking people in health care could help to overcome a lack of trained personnel in the medical field and elsewhere. But unfortunately educational as well as health care facilities are insufficient to meet the level and nature of needs in the border region. Several problems emerge.

First, many if not most children throughout the area do not speak English well or may not speak it at all. Bi-lingual programs of instruction do not exist in many school systems or, if they do, are not sufficiently developed and equipped to meet the extent of sociolinguistic need. In addition, there is too little contact between parents and teachers. This, of course, means that children are too often caught between conflicting value systems — that to which they are exposed in school and that in the home.

Second, inequities in distribution of public funds — due to gerrymandering of tax districts — have resulted in perpetuation of gross differences among school systems. The few wealthier districts and systems in the region tend to have significantly superior schools and equipment. They also are able to pay higher salaries. Conversely, the poorer school systems remain impoverished as they are dependent on a weaker tax structure.

Third, traditional models of vocational education continue to be applied to the poor and minority sections of the region. Unfortunately, these have a stifling impact. Rather than recruiting poor Spanish-speaking into the liberal arts and professions, present

91-139 O - 77 - 12

educational systems continue to place emphasis on vocational education. The result is a major population group which lacks sufficient numbers of people trained in medicine, law, science, business, and the social sciences. In turn, this tends to reinforce stereotypification, completing the "vicious cycle."

TECHNOLOGICAL CHANGE

As has been mentioned elsewhere, the border region is characterized by a overdependence on one economic enterprise — agriculture. Unfortunately, mechanization of agriculture has resulted in severe employee dislocation. For example, from 1960 to 1974 agricultural employment in Imperial County, California, dropped by 48%. The problem is especially acute because most workers in agriculture are not equipped to engage in much other than unskilled labor activities. Ot course, the dilemma is exacerbated by the absence of sufficient training programs and facilities to provide new sets of skills to those workers who are laid off permanently. This is a growing problem.

While agriculture clearly is the dominant economic activity throughout the region, there have been developments in the manufacturing sector. But the manufacturing industries which have located along the border have generally done so to take advantage of more favorable Mexican wage levels. This, of course, has a reduced effect on the alleviation of high unemployment on this side of the frontier. Finally, a great deal of what is labelled "technology" tends to be capital intensive and of little value toward contributing to solutions of massive under — and unemployment. The proportionate reduction in job opportunities, coupled with increasing demographic tensions is making a serious problem even more grave.

MAGNITUDE AND CHARACTER OF THE MIGRATION

To gain a perspective, it is necessary to examine statistics which indicate the magnitude of Mexican migration over a period of time. It is easy to determine the number of legal immigrants, since such data is readily available. Table IV shows the annual number of legal immigrants from Mexico to the United States since 1869.

There are important differences between legal Mexican immigrants and other legal immigrants. The foremost difference is that Mexicans overwhelmingly prefer to reside in the border region. Perhaps most important is the fact that legal Mexican immigrants tend to have a significantly different occupational distribution from that of legal entrants from other nations. A disproportionally high number of Mexicans are blue collar workers, craftsmen, household service workers, non-farm laborers and farm laborers.

Illegal Immigrants

A far more difficult problem is presented when one attempts to estimate the number of illegal immigrants coming into the United States from Mexico. A research paper written for the Center for Population Research by Howard Goldberg of Georgetown University applied life-table survival rates by age and sex to the 1960 census population of Mexico in order to obtain the expected 1970 population. This was compared to the enumerated 1970 population and the differences were assumed to represent the net immigration from Mexico to the United States. Taking into consideration the increase in legal immigrants and applying the U. S. census data, Mr. Goldberg calculated that 1,597,000 illegal Mexican immigrants resided in the United States during 1970.

A study prepared for the Immigration and Naturalization Service by Lesko Associates in 1975 based its assumptions on a complicated formula including the survival rate, the constant multiplier, the apprehension data from INS records, and using Goldberg's estimate for 1970 as a base year figure — estimated the number of illegal Mexican aliens in 1975 to be 5,204,000. (See Table VI.)

Estimates abound as to the breakdown by state of these illegal immigrants. Figures compiled by the INS estimate that California's total number of illegal aliens runs somewhere between 1,560,000 and 1,728,000. Arizona is supposed to have between 50,000 and 55,000 illegal aliens. New Mexico may contain between 20,00 and 25,000 illegal aliens, and Texas may have between 840,000 and 875,000 illegals. (See Table X.)

Perhaps a better way of determining the flow of illegal immigration in the United States would be the examination of the number of aliens who are apprehended and deported back to Mexico. While, again, there is some controversy regarding these figures, they do provide data with respect to the complexity of the problem. Table VIII shows the number of deportable aliens located in California. An examination of the table shows that in the fiscal year 1970, some 107,939 deportable aliens were located. This number has steadily increased so that in fiscal year 1975 the figure has reached 304,356. In fiscal year 1974, the INS reported that they had apprehended more than 701,000 illegal aliens in the southwest area. This marked the twelfth straight year that the number of aliens arrested had increased.

Employment

Although there are some notable exceptions, the vast number of alien workers find employment in what is increasingly referred to as the secondary labor market of the American economy. The secondary labor market is characterized by low wages, little job security, high employee turnover, few job rights, and, usually, the lack of labor unions.

The alien competes with large numbers of citizens for the menial jobs that characterize this market. The citizen-workers who are disproportionately, but by no means exclusively from racial and ethnic minorities — are at an even greater disadvantage because of the presence of the aliens. Aliens will frequently work harder, will be more grateful for a job opportunity, and will be more docile with respect to the acceptance of arbitrary treatment than the citizen worker. The citizen worker must choose either to live and work at the level of the illegal alien, or to become unemployed, or live on welfare, or turn to criminal activity, or move if he can.

Furthermore, almost half of the seasonal migrant farmworkers in the United States come from the south Texas border area. This is a possible result of the presence of undocumented workers, and other border commuters from Mexico. One INS study said that passage of a bill to prevent employers from hiring illegal aliens could mean one million jobs within the next few months for currently unemployed Americans. Of these, 335,000 would be in agriculture; 150,000 in heavy industry; 214,000 in light industry; and 301,000 in services.

A study prepared by the San Diego County Human Resource Agency in November 1975 estimated that approximately 9,000 illegal aliens hold jobs in San Diego County and earn wages totalling $34,560,000. The study indicated that 63% of the aliens apprehended on the job earned less than $2.50 an hour. The wage input obtained from illegal aliens interviewed by San Diego Border Patrol Officials averaged $2.00 per hour.

INS reported *(US News and World Report,* December 9, 1974) that a spot check conducted in the Los Angeles area in July through September of 1974 revealed that the Immigration Service apprehended 8,813 illegal aliens who were employed. Nearly half — 4,291 — were working in heavy industry at wages of $4.50 to $6.50 per hour. Another 1,982 — or more than 20% — held jobs in light industry and were earning an average of $1.65 an hour.

Historically, the impact of the illegal Mexican immigrant has been felt in the rural economy of the Southwest. Having come from a rural background with little knowledge of either urban work skills or the English language, it was easier for the illegal aliens to find employment in the rural areas. Moreover, the rural southwestern United States is a vast land area composed of small population clusters. The needs of growers and ranchers are especially acute during planting and harvesting seasons, when they are more than willing to employ the cheap and totally dependent illegal aliens. There are numerous accounts of illegal aliens being paid wages below prescribed minimum wage levels and of employers turning in their workers to immigration authorities at the end of the season prior to the time they would collect their pay. In this way the aliens, who themselves deprive native workers of jobs at decent pay levels, are often victimized by employers who know that the aliens have no recourse to justice.

Commuters

The U. S. border policy governing *commuters* is unique. It has been observed that "the commuter is this generation's bracero." The commuters are people who live in Mexico but frequently seek employment in the United States.

There are several differences between a "green carder" and other permanent resident immigrants. A green carder is not actually required to reside within the country; he may not be unemployed for more than six months without losing his immigration classification; he may not serve as a strikebreaker; and he cannot count the time he lives outside the United States toward the five years needed to be eligible to apply for citizenship. In reality these differences are not of consequence. The unemployment restriction is not enforced; the anti-strike breaker rule is so easily circumvented that it is essentially meaningless; and many green carders have no interest in becoming American citizens.

The second group of commuters are known as "white carders" (similarly called because of the original color of their border crossing passes). These people are "legal visitors" or "border crossers" who can stay in the United States for up to seventy-two hours within a radius of twenty-five miles of the border.

Presently the cards bear no date indicating when the bearer crosses the border. Hence, within the twenty-five mile border radius there is absolutely no way to know how long a white carder has been in the country. If a white carder indicates when he crosses the border that he plans to travel beyond the twenty-five mile limit, a date of entry is stamped on the card. In fact, however, this procedure is frequently circumvented. Once a white carder crosses the border, he simply mails the card back to Mexico and then proceeds to go beyond the twenty-five mile limit for as long as he wants. If by chance he is apprehended, he simply claims he is an illegal entrant, agrees to a voluntary departure, and is returned to Mexico with no record made of his violation of the law. When he returns to Mexico his white card is waiting for him, so the entire cycle may then be repeated. The white card is among the devices used by illegal entrants to gain entrance to the United States.

Exactly how many green and white carders there are is a mystery. A 1969 study reported that 70,000 workers crossed the southern border daily. Of these, 20,000 were American citizens and 50,000 were green carders. How many additional seasonal green carders there are is unknown. These green carders are often willing to work for wages and under employment conditions which are impossible for a person who must confront the daily cost of living in the United States on a full-time basis. Moreover, there is ample evidence that many commuting green carders do not pay income tax.

As for white carders, the INS reports that over 2.2 million cards were issued in the Southwest region between 1960 and 1969. How many of these white carders have abused their visiting privileges by seeking employment is inknown. The fact that the statistics on green and white carders are either vague or completely unknown was labeled "astonishing" by the comprehensive UCLA Mexican-American Study Project conducted in 1970.

In 1952 the Secretary of the U. S. Department of Labor was empowered to block the entry of immigrants from Mexico if their presence would endanger prevailing labor standards. The Immigration Act of 1965 significantly increased this power. As one condition for receipt of a green card, a certification must be made that a labor shortage exists in the occupation for which the immigrant seeks employment and that his presence will not adversely affect prevailing wages and working conditions. The certification procedure, however, has many loopholes, and it is estimated that only one of every thirteen workers seeking to become immigrants is subject to the certification process.

Twin Plant Program

To complete a discussion on the current status of United States policies that have a serious detrimental impact upon employment, it is necessary to mention the "Twin Plants Program." Following the termination of the Bracero Program on December 31, 1964, both the United States and Mexico began a search for methods to assist Mexico in adjusting to the new situation. The population of the Mexican border cities had grown immensely during the life of the program. The burden of the displaced Braceros added to their problems of under-employment, unemployment and poverty, and made each of these social maladies more acute.

Mexico responded to this situation with the passage of the Border Industries Program in May 1965. The tariff codes of the United States allow foreign based subsidiaries that are 100% owned by U. S. firms to assemble products whose parts were originally manufactured in the United States for re-entry into the country under special schedules. In 1972 there were some 345 plants participating in the program with total employment in excess of 46,000 workers. Many of the participating businesses were among the nation's largest corporations (Bendix, Honeywell, Lockheed, RCA, Samsonite and Zenith). It is estimated that in 1972 they collectively produced 400 million dollars worth of goods.

Unfortunately, the ten-year old international partnership has turned sour under the forces of inflation and recession, and is causing deepening bitterness along the border. Thousands of Mexican workers who flocked to border towns in search of American pay checks are now out of work. Some of the 450 American manufacturers who found refuge from high United States wages along the narrow, duty-free zone inside Mexico are now fleeing to Central America, the Far East and Ireland because operating costs have risen in Mexico.

Wages still average less than $1.00 an hour. But this is more than 50% higher than 18 months ago, and U. S. companies say they can find labor for less than $.50 an hour in other countries. Many of the plants that are still operating along the border have found that the recession in the United States has reduced the demand for the toys, clothing, electronic parts and other items they assemble. A May 26, 1975 *New York Times* article indicated that within the last 18 months the labor force employed by U.S. companies inside the border — most of them women from 17 to 24 years old — has decreased by more than 30%, or approximately 50,000 jobs, and scores of assembly plants have closed.

Below the California border, near Tijuana and Mexicali, employment has fallen by more than 30% to 28,000 at U. S. company plants. Several major companies have left.

Also there are other problems besetting border industry. United States labor unions, citing high unemployment in the United States, are bringing pressure to abolish the border program and "bring back American jobs to America."

Thus the Twin Plant concept plan has apparently not lived up to initial expectations. The failure, unfortunately, appears only to have benefitted a few American industries for a brief period of time and aided Mexican workers for an equally brief time. However, the long range effect of the program has been to aggravate the critical border situation, as thousands and thousands of Mexican workers have poured into the border areas in hopes of finding work at the plants. Now, with no jobs waiting for them there, it would appear that many of these people look toward the United States as their only hope.

Education

While little data is available relating to the effect of immigration on education, it would appear that it places an additional financial burden on the state via the school districts, increases class sizes, and requires additional time and energy from teachers to bring the immigrants up to equivalent level of those students already in the school (i.e. bring language skills up to par). Therefore, the impact upon education would appear to be an important area in which to conduct additional research.

Juvenile Crime

In October 1975, a conference was called by businessmen, law enforcement officers and citizens to discuss illegal juvenile aliens committing crimes in Texas and fleeing to Mexico without prosecution. State Senator Raul Longoria of Edinburg described an "alarming increase" of juvenile alien-connected crimes. "More than 10,000 incidents were reported in 1974," he said, "in which juvenile aliens in the state illegally, were apprehended and charged in violation of state laws."

Texas Youth Council officials indicated that they were ill-prepared to deal with these juveniles. Officials said that much of the TYC Program is based on working with parents of delinquents, but this is not possible because the parents are in Mexico.

A study of the juvenile probation department in San Diego County revealed that 234 illegal alien juveniles were served by the county during the period of June 6, 1974 through July 21, 1975. A random sample of 31 cases were surveyed for the purpose of determining the areas of criminal involvement. A breakdown of charges were: 18 burglaries, 4 auto thefts, 3 petty thefts, 2 assaults with a deadly weapon, 2 grand thefts, 1 drinking and resisting arrest, and 1 possession of marijuana.

Welfare

Currently a project exists of cooperation between the California Department of Public Social Services and the Immigration and Naturalization Service office in Los Angeles to reduce the number of illegal aliens who receive public assistance. Figures for the period from August 25, 1975 to April 30, 1976, show that of the some 3,158 individuals referred to INS for investigation, 32.68% were found to be illegal aliens and 23.65% failed to respond to the request to come into the INS office for an interview. Some 43.07% were found to be legal aliens. These figures indicate that a substantial number of illegal aliens are qualifying for welfare assistance, and thereby exerting a further burden on county and state services.

Health

The San Diego Immigration Council Health Care Committee conducted an extensive study into the impact of aliens upon county health services. In San Diego the primary qualification for county aid is residence, not citizenship. The alien of San Diego County who is sick and seeking hospitalization, and who qualifies for admission to the county institution under existing laws and rules, is not discriminated against by the institution in its reception of him, his care, treatment, or accountability for reimbursement of hospital costs incurred by him.

A study conducted by San Diego County found that the total costs reimbursed by the county of San Diego to the University Hospital for providing health care treatment to Mexican nationals and illegal aliens for fiscal years 1971-72 through 1974-75 was $2,008,710.64.

TABLE III

Table of Metropolitan Population
U. S. and Mexico Communities

	1960+	1970+	1974*
San Diego	1,033,011	1,357,854	1,518,000
Tijuana	165,690	335,125	486,658
Total	1,198,701	1,692,979	2,004,658
El Paso	314,070	359,291	410,000
Juarez	276,995	436,059	555,459
Total	591,065	795,345	965,459
Brownsville-Harlingen	151,098	140,368	168,300
Matamoros	143,043	182,887	192,000
Total	294,141	323,255	362,300
Edinburg-McAllen	180,904	181,535	217,600
Reynosa	134,869	143,514	150,700
Total	315,773	325,049	368,300
Laredo	64,791	72,859	78,100
Nuevo Laredo	96,043	150,922	161,000
Total	160,834	223,781	239,100
Mexico Border Population	1,485,791	2,133,454	2,645,482
U.S. Border Population	2,349,293	2,847,565	3,260,100
Total	3,835,084	4,981,019	5,905,582

+ Official Cencus, U. S. Bureau of Census and Mexico Industry and Commerce Dept.
* Estimates — Bureau of Census and Municipal Authorities in Mexico.

TABLE IV

LEGAL IMMIGRATION FROM MEXICO TO THE UNITED STATES, 1869-1973

Year	Immigrants	Year	Immigrants	Year	Immigrants
1869	320	1904	1,009	1939	2,265
1870	463	1904	2,637	1940	1,914
1871	402	1906	1,997	1941	2,068
1872	569	1907	1,406	1942	2,182
1873	606	1908	6,067	1943	3,985
1874	386	1909	16,251	1944	6,399
1875	610	1910	17,760	1945	6,455
1876	631	1911	18,784	1946	6,805
1877	445	1912	22,001	1947	7,775
1878	465	1913	10,954	1948	8,730
1879	556	1914	13,089	1949	7,977
1880	492	1915	10,993	1950	6,841
1881	325	1916	17,198	1951	6,372
1882	366	1917	16,438	1952	9,600
1883	469	1918	17,602	1953	18,454
1884	430	1919	28,844	1954	37,456
1885	323	1920	51,042	1955	50,772
1886	n.a.	1921	29,603	1956	65,047
1887	n.a.	1922	18,246	1957	49,154
1888	n.a.	1923	62,709	1958	26,712
1889	n.a.	1924	87,648	1959	23,061
1890	n.a.	1925	32,378	1960	32,684
1891	n.a.	1926	42,638	1961	41,632
1892	n.a.	1927	66,766	1962	55,291
1893	n.a.	1928	56,765	1963	55,253
1894	109	1929	38,980	1964	32,967
1895	116	1930	11,915	1965	37,969
1896	150	1931	2,627	1966	45,163
1897	91	1932	1,674	1967	42,371
1898	107	1933	1,514	1968	43,563
1899	163	1934	1,470	1969	44,623
1900	237	1935	1,232	1970	44,469
1901	347	1936	1,308	1971	50,103
1902	709	1937	1,918	1972	64,040
1903	528	1938	2,014	1973	70,141
Total 1869-1973					1,737,185

n.a. Data not available.

Sources: For years 1869-1969, the data is taken from Tabe 1A of a mimeographed paper, "Mexican Immigration," presented by Julian Samora at the Conference on Economic and Educational Perspectives of the Mexican American (Aspen, Colorado, August 27, 1972), the figures for 1970-73 are from annual reports of the U. S. Immigration and Naturalization Service.

TABLE V

ILLEGAL MEXICAN ALIENS APPREHENDED AND OR DEPORTED, 1924-1973

Year	Number of aliens	Year	Number of aliens	Year	Number of aliens
1924	4,614	1941	6,082	1958	45,164
1925	2,961	1942	10,603	1959	42,732
1926	4,047	1943	16,154	1960	39,750
1927	4,495	1944	39,449	1961	39,860
1928	5,529	1945	80,760	1962	41,200
1929	8,538	1946	116,320	1963	51,230
1930	18,319	1947	214,543	1964	41,589
1931	8,409	1948	193,852	1965	48,948
1932	7,116	1949	289,400	1966	89,683
1933	15,875	1950	469,581	1967	107,695
1934	8,910	1951	510,355	1968	142,520
1935	9,139	1952	531,719	1969	189,572
1936	9,534	1953	839,149	1970	265,539
1937	9,535	1954	1,035,282	1971	348,178
1938	8,684	1955	165,186	1972	430,213
1939	9,376	1956	58,792	1973	576,823
1940	8,051	1957	45,640		
Total 1924-1973					7,266,695

Note: There is a considerable problem with the exact figures used to report illegal aliens. The official definitions have changed over time. Nevertheless, these figures do reflect correctly the orders of magnitude.
Source: For the years 1924-1941, see Samora, "Mexican Immigration," Table III; for 1942-1973, see Vernon M. Briggs, Jr., *The Mexico-United States Border: Public Policy and Chicano Economic Welfare* (Austin, Texas: Center for the Study of Human Resources and Bureau of Business Research, 1974), p. 8.

TABLE VI
Estimates of Mexican Illegal Aliens in U. S.

YEAR	GOTAWAY-AT-ENTRY RATIO	SUCCESSFUL ILLEGAL ENTRIES (000'S)	ILLEGALS REMAINING FROM PREVIOUS YEARS (000'S)	MEXICAN ILLEGALS IN U. S. (000'S)
1970				1,597.0*
1971	8.61	544.6	1,555.2	2,099.8
1972	7.64	648.9	2,044.7	2,693.6
1973	6.89	845.0	2,623.0	3,468.1
1974	5.67	972.3	3,377.2	4,349.5
1975	6.26	968.4	4,235.6	5,204.0

* Goldberg estimate.
SOURCE: U.S. IMMIGRATION AND NATURALIZATION SERVICE

TABLE VII

DEPORTABLE ALIENS LOCATED UNITED STATES

	Mexican	Other	Total
FY 1975 (July 1, 1974-June 30-1975)			
	680,335	76,484	756,819
FY 1974 (July 1, 1973 - June 30, 1974)			
	709,945	71,046	780,991
FY 1973 (July 1, 1972 - June 30, 1973)			
	576,807	70,705	647,512
FY 1972 (July 1, 1971 - June 30, 1972)			
	430,211	61,978	492,139
FY 1971 (July 1, 1970 - June 30, 1971)			
U. S.	348,406	64,406	412,578
FY 1970 (July 1, 1969 - June 30, 1970)			
U. S.	277,346	57,731	335,077

SOURCE: INS

TABLE VIII

DEPORTABLE ALIENS LOCATED
California Only

Office	Mexican	Other	Total
	FY 1975 (July 1, 1974 - June 30, 1975		
Los Angeles	30,474	4,093	34,567
San Francisco	8,648	2,095	10,743
Chula Vista (BP)	182,002	3,497	185,499
El Centro (BP)	27,073	144	27,217
Livermore (BP)	56,159	127	56,286
California	304,356	9,956	314,312
	FY 1974 (July 1, 1973 - June 30, 1974)		
Los Angeles	16,276	2,276	18,552
San Francisco	7,949	1,712	9,661
Chula Vista (BP)	92,060	4,921	96,981
El Centro (BP)	25,947	196	26,143
Livermore (BP)	39,538	102	39,640
California (BP)	181,770	9,207	190,977
	FY 1973 (July 1, 1972 - June 30, 1973)		
Los Angeles	26,615	2,841	29,456
San Francisco	5,311	1,630	6,941
Chula Vista (BP)	126,206	2,683	128,889
El Centro (BP)	22,962	163	23,125
Livermore (BP)	33,579	126	33,705
California (BP)	214,673	7,443	222,116

SOURCE: INS

TABLE IX

DEPORTABLE ALIENS LOCATED
Arizona Only

Office	Mexican	Other	Total
	FY 1975 (July 1, 1974 - June 30, 1975)		
Phoenix	3,660	174	3,834
Tuscon (BP)	39,742	199	39,941
Yuma (BP)	50,568	60	50,628
Arizona	93,970	433	94,403
	FY 1974 (July 1, 1973 - June 30, 1974)		
Phoenix	4,619	129	4,748
Tuscon (BP)	49,846	260	50,106
Yuma (BP)	49,747	77	49,824
Arizona	104,212	466	104,678
	FY 1973 (July 1, 1972 - June 30, 1973)		
Phoenix	4,288	190	4,478
Tuscon (BP)	44,767	57	44,824
Yuma (BP)	36,235	51	36,286
Arizona	85,290	290	85,588

TABLE X

ESTIMATED TOTAL NUMBER OF ILLEGAL ALIENS BY STATE

State	Estimate of Total Illegal Aliens
Arizona	50,000 - 55,000
California	1,560,000 - 1,728,000
New Mexico	20,000 - 25,000
Texas	840,000 - 875,000

TABLE XI

ESTIMATED TOTAL NUMBER OF ILLEGAL ALIENS AND EMPLOYED ILLEGAL ALIENS BY INS DISTRICT

District	Estimate of Employed Illegal Aliens	Estimate of Total Illegal Aliens
Los Angeles	900,000 - 1,000,000	1,350,000 - 1,500,000
Phoenix	30,000 - 35,000	50,000 - 55,000
San Francisco	150,000 - 160,000	220,000 - 240,000
El Paso	45,000 - 50,000	75,000 - 80,000
Houston	440,000 - 450,000	525,000 - 550,000
San Antonio	220,000 - 230,000	310,000 - 330,000

Source: INS.

TABLE XII

Illegal Aliens Employed at the Time of Arrest by Los Angeles Immigration District in Los Angeles, Orange County, and San Diego Metropolitan Areas. January - June, 1975

Category	Hr. Rate $6.50 plus	$4.50 6.49	$2.50 4.49	Less than $2.50	TOTAL
Heavy Industry	22	96	90	52	260
Light Industry	75	420	1978	4436	6909
Agriculture	2	33	42	280	357
Construction	16	61	34	41	152
Services	24	99	621	1185	1929
Totals	139	709	2765	5994	9607

Source: Immigration and Naturalization Service, Southwest Region, San Pedro, California. Courtesy of Robert J. Seitz, Public Information Officer, INS.

THE FUTURE - A HOPE

We believe the answer to this basically economic problem is not increased policing of the 2,000-mile border between the United States and Mexico, but rather economic development of both sides of the border, and that the highest levels of government must assume an active role. In this light, we should explore the ways in which the border states and the federal governments of both the United States and Mexico can cooperate in an intensive economic development program along their borders. At the same time, the four border states of California, Arizona, New Mexico, and Texas must take the lead in formulating workable, effective solutions, for our states are most immediately burdened with the problems of health, welfare, education, law enforcement, and other critical needs caused by depressed border conditions. If solutions are not found, our state economies will be the first to suffer. Conversely, we have the most to gain by improving the social and economic health of the border regions.

If we are to be successful, it is necessary that we go to the root of the dilemma. Obviously, the source of the critical migration problem is the depressed economic situation in Mexico and along the border regions of all four states, a situation further aggravated by the generally depressed condition of the Mexican economy relative to the U. S. economy. Though easily stated, the situation represents a complex economic challenge. On the one hand, the border regions have been plagued for decades by major social and economic problems, which though more severe, are common to other impoverished areas of the country — problems such as educational deficiencies, low population density, remoteness from major market areas, and a surplus of unskilled labor. Yet, unlike Appalacia for example, the Mexican border difficulties are compounded by still others indigenous to the region — by the wide range of geography, and by the differences in culture, language and currency.

While the need for remedial action along the border has been recognized, few individuals or agencies have come forth with specific recommendations that are both relevant and realistic. We believe that any successful program must acknowledge the complexity and interrelationship of the border problems, and therefore must entail a multi-faceted approach that integrates economic development with improvements in health care services, transportation facilities, educational opportunities and other public works programs. The area is particularly adaptable to collaborative efforts in the development of energy needs, communications, transportation, water sources and tourism. Too, the geography and climate provide optimum conditions for research in alternative energy sources — particularly solar energy. This comprehensive approach toward improving the economies of our poorest regions should enable the border states, at the same time, to enhance their overall economic health, for as statistics clearly demonstrate, the impoverishment of the border regions constitutes a pernicious drain on the economies of all four states.

The scope of the border problems demand a regional approach and the establishment of a regional structure that, by virtue of its unified character, possesses greater potential power than any single state acting alone can summon. As Martha Derthick has pointed out in her authoritative study of regional organizations in the United States:

(Such entities) are needed to respond to the problem of "scale" that arises when functions spill over state boundaries without . . . requiring nationwide action. The problem of scale may arise when actions in one state jurisdiction substantially affect the welfare of a neighboring jurisdiction. . . .

(It) also arises when common social or economic characteristics extend across jurisdictional boundaries so that government activities ought to encompass the homogeneous area.

91-139 O - 77 - 13

That the border situation falls squarely within these criteria is evident when we consider the increased difficulties arising from the efforts of a single border state to improve its own border area without corresponding efforts by its sister states. Improved conditions in one area will likely ensure increased migration to that region, thus adding to the already heavy burdens carried by that state and impending any real progress in raising the standard of living in the area. But if there is a coordinated plan of development along the entire border, we can provide for gradual improvement along a broad front so that no single state will be forced to shoulder all of the responsibility. At the same time, such efforts will allow us to offer a wider range of choice in attempting to attract industry to locate along the border.

The logical approach appears to be the establishment of a joint Federal-State Regional Action Planning Commission authorized under Title V of the Public Works and Economic Development Act of 1965. Title V provides that the Secretary of Commerce may designate an area of the country as depressed. Upon designation, the governors of the states encompassing the designated region may form a regional action commission in cooperation with the federal government. With representation drawn from both the federal and state levels, the agency then becomes a federal-state co-venture, designed to develop a long-range regional economic plan and to coordinate the implementation of that plan through specific action programs.

In summary, the future of our border area will depend upon an updated regional view of ideas, methods, and analysis of old problems — and the use of realistic socio-economic planning in whatever dimension required for the years ahead.

APPENDIX A.

STATE OF ARIZONA

Raul Castro, Governor

Purpose of Report

Economic and social problems which confront America's citizens often stem from causes which either transgress State boundaries or which are so similar that their correction can most efficiently be achieved through interstate cooperative study and action. Recognizing this, the U. S. Congress passed the Public Works and Economic Development Act of 1965, authorizing the Secretary of Commerce to designate appropriate economic development regions within the United States with the concurrence of the States which, in whole or in part, would constitute such regions.

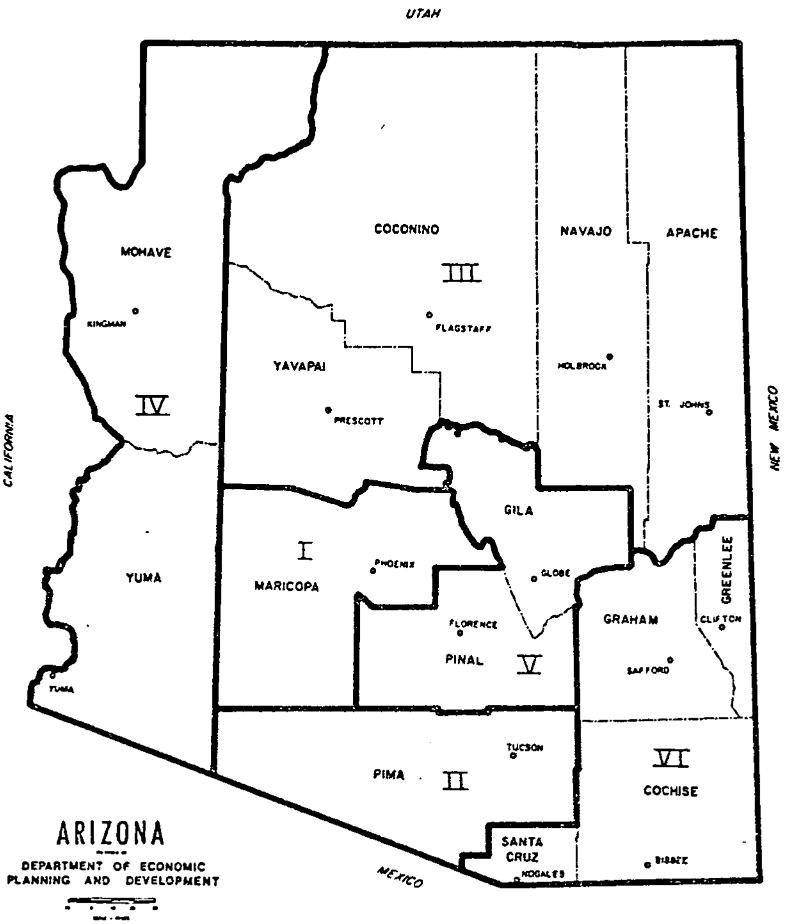
In 1975, the Congress passed the Regional Action Planning Commission Improvement Act. This amendment to the 1965 Act authorized and encouraged the creation of a Southwestern U. S. Border Commission. The language of the amended Act is quite specific:

> It is the intent of Congress that the Secretary of Commerce acting under the authority of Title V of the Public Works and Economic Development Act of 1965 should invite and encourage the formation of a regional commission for the region along the border with Mexico in the States of Texas, New Mexico, Arizona, and California.

Such emphasis on the formation of a Regional Action Planning Commission in a specified geopolitical area implies that Congress attaches an extra measure of importance to the formation of the Border Commission. We may surmise that an overriding reason is because the four States share a common boundary with Mexico — one of only two nations which share international land boundaries with the United States. Therefore, throughout the remainder of this staff report, not only has analysis been made of the domestic importance of the proposed Border Commission, but its international implications have also been addressed, in accordance with the apparent intent of Congress.

The purpose of this staff report is to present factual socio-economic evidence and to discuss emerging geopolitical trends which document the need for the Border Commission. These materials, when assembled with information from those other States which wish to participate in the formation of the Border Commission, can be forwarded, at the pleasure of the Governors of the participating States, to the Secretary of Commerce with a request for regional designation.

STATE PLANNING AND DEVELOPMENT DISTRICTS



Arizona: A Profile

Political History

Arizona was admitted to the Union on February 14, 1912, as the 48th State, nearly a half century after it had been made a separate territory under the Organic Act of 1863. Prior to that it had been part of the original Territory of New Mexico created by the Texas and New Mexico Act of 1850. Sovereignty over the territory which now forms the State of Arizona was acquired by the United States from the Republic of Mexico in the Treaty of Guadalupe Hidalgo, negotiated in 1848, and the Gadsden Purchase of 1853.

The pre-Territory era of Arizona's history is one of significant conflicts: conflict with the native Indian populations who yielded slowly to Anglo rule; conflict with the arid land itself, which in its own way resisted the new settlers; continuing political conflicts as the region struggled to attain Territorial status. The difficulties of settling this harsh environment were reflected in the sparse population; by 1864, Arizona had a population of only 4,573.

The establishment of the Arizona Territory encouraged migration into the region. By 1880, the population had grown to 40,400 and by 1890 it reached 88,000. Arizona remained a Territory for 49 years, and during much of that period, her people fought both for and against statehood. In 1906, the citizens of Arizona voted against joint statehood with New Mexico, thus defeating the concept of a giant border state stretching from Texas to California. In 1912, Arizona joined the Union as the 48th State.

Mexican Influences

In Arizona, settlement began north from the Mexican state of Sonora in the seventeenth and eighteenth centuries with a chain of missions that opened the valleys of the San Miguel, Altar, Santa Cruz, and San Pedro Rivers. Some colonization followed, mostly in the form of large estates. But these estates were subject to continuous raids from Indians. Thus, when in 1751 troops from Mexico were withdrawn for a time, Apache raiders laid waste to the entire province, an area covering nearly all of modern Arizona. A military stalemate was just barely restored in succeeding years and then slowly the Indians gained the upper hand again until by 1856 nearly all Arizona colonists lived (for safety) in the fortified city of Tucson.

In Arizona, the shift to Anglo domination in the late 1800's was less painful than elsewhere because there were so few resident Mexicans. By the 1880's, the final collapse of Indian resistance coincided very closely with the beginning of large-scale mining and the building of the railroads. The few Mexicans in Arizona were not nearly numerous enough to supply the endless need for cheap wage labor. Tousands more were imported through the labor markets of the border towns of Laredo and El Paso.

Arizona settlement patterns were notable for the large number of isolated mining towns, nearly all of them with a large majority of Mexicans. Some Mexicans were natives; some were imported. Some probably followed the mines as they were opened and closed by a single company in different areas. These company towns appeared in large numbers in the 1880's in such isolated places as Tubac, Miami, San Manuel, Mammoth, Walker, Dewey, Morenci, Dequesne, Metcalf, Ajo, Bluebell, and scores of others. Some are still in existence; others are ghost towns. Miners' enclaves also provided the original impetus for many larger Arizona towns, such as Bisbee, Prescott, and Douglas. Typically, the mining towns were totally isolated from the normal American society of the time. Many were too small or too dominated by a single employer to provide any but the most rudimentary public services. From the beginning there was rigid separation by occupation, which meant segregation of the Mexicans from the Anglos, with such additional forms of segregation as "Mexican" shopping hours in the company store.

In the early 1900's, a new group of Mexican immigrants began to enter the United States, attracted by job offers from agricultural developers who wished to open up virgin lands in southern California, Colorado, Arizona and south Texas. During World War I and the 1920's, this movement became a flood. These hundreds of thousands of new Mexican-Americans had to overcome many obstacles as they attempted to improve their life patterns. Gradually, and in spite of the trauma of the Great Depression (when Mexicans were deported in mass to Mexico), Mexicans in the United States climbed the economic ladder and established stable, secure communities in the southwest.

Mexican-American civic, business and political leaders are now prominent in many regions, and they include within their ranks members of Congress, governors, mayors, and all types of professional people. The image of the Mexican heritage has vastly improved due not only to the activities of individual Mexican-Americans, but also due to the cultural renaissance occurring in Mexico itself concurrent with the incredible richness of the Mexican past revealed by contemporary archaeological discoverers. Anglo-Americans have ceased emphasizing the Spanish legacy at the expense of the Mexican, and a more healthy climate of mutual understanding has evolved.

Geographic Profile

Arizona's landforms display immense diversity, ranging from low desert valleys 140 feet above sea level at Yuma to mountains nearly 13,000 feet high at Flagstaff. The southwest region, which includes portions of the Mohave and Sonoran deserts, contains the greatest land area. It is characterized by flat desert plains with many arroyos separated by low hills. Vegetation on the Mohave Desert consists primarily of creosote bush and salt bush on the desert floor, with other desert plants at the higher elevations. The Sonoran Desert has many varieties of cactus, wild flowers, trees and shrubs. This region extends to Bullhead City in the north and Florence in the east. The southeast region is unique for its combination of desert plains, lush grasslands and forested mountains. Specific features include numerous mountain ranges as high as 10,000 feet, and four broad valleys. Vegetation is extensive and varies from cactus to pine trees. The central region is the most rugged area in the state and acts as a transition zone between the plateaus of the north and the arid deserts of the south. This region is characterized by isolated mountain ranges cut by steep-walled canyons and gorges, as well as many streams and creeks. This region extends from Globe in the southeast to Prescott in the northwest. The Mogollon Rim divides the central region from the plateau region, which stretches from the Utah border in the north-central part of the state south-easterly to the New Mexico state line. The three major plateaus of this region are characterized by lakes and streams, lush mountain meadows and extensive forests. Elevations range from 7,500 to 9,000 feet, with some mountain peaks approaching 13,000 feet. The most impressive feature of the northwest region, which is bisected by the Colorado River, is the Grand Canyon. North of the river are forested plateaus, narrow valleys and canyons; south are mountain ranges, steep cliffs and canyons. The northeast region, or Colorado Plateau, is characterized by flat-topped mesas and plateaus, buttes and desert valleys. Mountain ranges here reach as high as 9,000 feet. The red sandstone of Monument Valley is characteristic of this area.

Generally speaking, the climate zones follow the geographic regions of the state. The warm, dry desert climate of the far west and southwest portions of Arizona results in high temperatures, low humidity and sparse rainfall. The most extensive climate zone in the state is the warm, dry steppe climate. This climate is more moderate than the desert climate, with average precipitation of 15 to 30 inches per year. This zone stretches continuously from Douglas in the southeast to Lake Mead in the northwest, interrupted only by isolated mountains. The cool, dry steppe climate, with similar amounts of precipitation, but cooler temperatures than the warm steppe zone, is found in the higher plateaus of northeast Arizona. The steppe climates serve as a transition between mountain and desert climates of the state. The warm highland climate occurs at elevations above 5,000 feet. This zone is scattered in isolated pockets throughout the state. The cool highland climate exists in the highest elevations of the state, particularly in the mountains of east-central and northeast Arizona. Cold winters are the rule in this zone.

Arizona soil distribution patterns are closely related to the physiographic provinces. Generally, the Basin and Range province is characterized by aridisoils — soils alkaline and sandy in nature and low in organic matter. Valley irrigation often results in accumulations of lime or caliche ranging from a few millimeters to several feet in thickness. Colorado Plateau soils are basically highland soils rich in dark organic matter and supportive of denser vegetation than the aridisoils.

Water is one of the most critical resources for the development of the State of Arizona. Demands for domestic, municipal, industrial, mining, livestock and irrigation waters are continually increasing. Most of Arizona's precipitation, ranging between ten and thirty-five inches yearly, falls in the central mountains and is transported in perennial streams to the lowlands. Rainfall in the Basin and Range provinces is minimal, that of the higher mountain ranges is quickly evaporated in the desert basins. Thunderstorms often result in flash floods. Only a fraction of this water seeps into the groundwater basins and groundwater is being withdrawn or mined at a rate considerably greater than at which it is being recharged.

Because vegetation is a product of the environment, vegetative types also correspond closely to physiographic provinces; Complex interactions of such factors as temperature, climate, soil and water and maximums and minimums of these factors influence plant distribution. Diversities and extremes in these factors result in the most varied plant life in the United States — alpine, forest, grassland and desert. Typical Colorado Plateau vegetation includes alpine tundra, spruce-fir, douglas fir, ponderosa pine, pinon-juniper, and short grasses. Desert grasses, sagebrush and desert shrubs such as creosote bush, mesquite, tarbrush, paloverde, bursage, cacti and saltbrush are typically found in the Basin and Range area.

The State of Arizona is rich in minerals. Copper, uranium-vanadium, manganese, gold, silver, tungsten, iron and mercury deposits are significant. Copper, a major resource, is generally found throughout the Basin and Range province. Mineral materials such as sand and gravel, building stone, volcanic cinders and pumice, clay, limestone and gypsum are found extensively in southern Arizona and interspersed throughout the State. Rich deposites of feldspar, quartz, mica extend diagonally northwest to southeast across the northern half of the State. Precise location and character of mineral fuel deposits is still speculative. Coal deposits are basically limited to the northwestern portion of the State, in the Black Mesa fields; commercial oil and gas deposits are most likely to be developed in the northern and east central areas.

Economic Profile

Arizona has historically relied on cattle, cotton, copper and climate as the foundation of her economic base. While agriculture, mining and tourism continue to provide a substantial portion of the State's income, manufacturing has become the principal economic sector in Arizona.

Manufacturing. About one half of Arizona's 100,000 manufacturing employees work in such advanced technology industries as electronic components, computers, ordnance, aircraft and parts. Smelting and refining copper ore, apparel, printing and forest products are also significant employers. With the exception of smelters and forest products firms, most of this employment is in the Phoenix and Tucson areas. Total manufacturing output for the State in 1974 was $2.270 billion. (*Arizona Statistical Review,* 1975)

Agriculture. Over one million acres of Arizona land were devoted to agriculture in 1973. Principal crops included alfalfa; 219,000 acres; cotton, 309,000 acres; sorghum, 140,000 acres; and wheat, 216,000 acres. About 65,000 acres were in citrus, 74,700 in vegetables, and 14,000 in sugar beets. Maricopa led other Arizona counties with 441,200 acres under cultivation in 1973. Yuma followed with 247,610 acres; Pinal 242,700 acres; and Cochise, 127,690 acres. Livestock in Arizona in 1973 included 1.4 million head of cattle, 502,000 sheep, 81,000 hogs and one million chickens. The total value of agricultural production in 1974 was third among Arizona's major income sources. Of the total of $1,196,295,000, $613,163,000 resulted from crop production and $583,132,000 resulted from livestock production. In 1975, 24,100 persons or approximately 3 percent of the State's total employed labor force, were employed in agriculturally related fields. (*Arizona Statistical Review,* 1975.)

Mining. More than 38,000 workers are employed in Arizona's mines. The state produced over 1.5 billion dollars' worth of minerals in 1974, with over 85 percent of that total in cooper ore. In fact, Arizona leads the nation in copper production. Most of the major mines are in Gila, Pinal and Pima counties; however, Greenlee, Cochise and Mohave counties also have important producing mines. The copper industry, as other industry, directly and indirectly affects Arizona's total economy. According to the Arizona Mining Association, the industry stimulated nearly $5.2 billion in personal, business and government income in 1974. The Arizona Economic Information Center has estimated that one of every eight jobs, one of every eight personal income dollars and one of every four tax dollars relates to copper industry activities. State revenues realized through property tax, severance tax, corporate income tax, payroll tax, sales tax, motor vehicle tax, land rentals and royalties totaled $35,976,000 in 1974. County revenues totaled $17,404,000, municipal government revenues totaled $5,362,000, and school district revenues totaled $38,478,000 in 1974.

Tourism. It has been estimated that 6,648,400 passenger cars entered Arizona in 1974 and that $680 million were expended within the State for tourism and travel related functions.* Types of expenditures include $195 million for food and beverages, $128 million for lodging, $130 million for gas and auto related needs, $97 million for miscellaneous retail purchases, $53 million for public transportation, $45 million for amusement and recreation and $32 million for personal and other services. Estimated employment and tourist service industries in Arizona in 1970 totaled 48,882. In 1974, approximately 8,935,000 persons crossed into Mexico at Nogales (one of five entry points) and an estimated 184,435 of these persons traveled into interior Mexico. Because of localized seasonal variations in weather, summer tourism is greatest in northern Arizona and winter tourism in the southern portion of the state. Tourist dollars are most obvious

* (*Arizona Statistical Review,* 1975)

in Tucson and Nogales between January and April and most prevalent in Phoenix between September and March. Arizona's greatest attracting resources are resultant of the diversities in landscape — from tundra to desert, from 12,000 feet to nearly sea level. Arizona's eleven million acres of national forest, and the Colorado River lakes and resorts and national parks attract visitors from around the nation. The largest single attraction is of course, the Grand Canyon. In 1974, Arizona's national parks received 12,203,100 visitors; the Grand Canyon received 2,028,200 of these and the Petrified Forest was visited by 789,200 persons.

Forestry. Arizona's forest areas serve many purposes. They provide soil stabilization in watershed areas, forage for livestock, habitat for wildlife, recreational opportunities for residents and tourists, and timber for the lumber industry. Forests cover approximately 28 percent of the State's land area. Ponderosa pine, the principal commercial species, is found along the Mogollon Rim, the escarpment which separates the Colorado Plateau province from the Basin and Range provinces. Douglas fir, Englemann spruce, Arizona pine, Chihuahua pine and Aspen contribute slightly to commercial forestry. Total estimated sawtimber is nearly 20,000 million board feet and growing stock is estimated to be 3,700 million cubic feet. Much of Arizona's timber has traditionally been marketed outside the State — New Mexico and Texas have purchased about 28 percent of production in recent years. Lumbering has resulted in the building of a few small pulp and paper mills in northeastern Arizona. Limited quantities of pulpwood, newsprint and kraft linerboard are produced.

Demographic Profile

By 1900 there were some 123,000 residents in the Arizona Territory. In 1940, the State possessed nearly half a million inhabitants. Up to this point, a good two thirds of Arizona's population had been classed as rural, but in 1950 and later years the majority of Arizonans were urban residents. The 1970 Census considers nearly 80 percent of the State'spopulation urban. Population growth is now occurring in rural areas as well as in the metropolitan centers. Until 1970, increases were mainly in Phoenix, Tucson and along the western edge of the State. While most Arizonans still live in metropolitan areas, the highest percentage growth since 1970 has been in small non-urban areas. With only 19 people per square mile, Arizona has managed to avoid the urban density problems experienced elsewhere in the nation.

Demographically, Arizonans are most often white, between the age 18 and 44 (38%), and women (51%). Mexican (18.9%), Negro (3.2%), and Indian (5.4%), populations are also dispersed throughout the State. The greatest concentrations of Mexicans are in Southern Arizona, while the largest Indian concentrations are located on the reservations. Orientals, while dispersed statewide, comprise a somewhat larger part of the population in Cochise and Yuma Counties than they do statewide. While having a slightly larger white population than the national average, Arizona has slightly more people under the age of 5 (Arizona = 9% and U. S. =8%), and slightly fewer over the age of 65 (Arizona = 9% and U. S. =10%).

High unemployment as well as low income levels are most often found in the central cities and on the Indian reservations. The suburbs along with some rural white communities have fuller employment and higher personal income levels. The average unemployment rate in Arizona has been lower than the national average until 1975 when Arizona's jumped to 9.7%. While high unemployment had been previously characteristic of counties like Santa Cruz and Graham, the metropolitan areas seemed to respond to the recession. Unemployment is associated with minority status especially in high unemployment areas, however, 1974 minority unemployment rates in Arizona are very similar to the national average (8%). In contrast, white unemployment in Arizona is higher than the national average (Arizona = 6% and U.S. = 5%).

Arizona has one of the lowest per capita incomes in the nation, ranking 34th in per capita income ($4,889) in 1974. High personal income is concentrated in a few suburbs and in mining communities. Non-agricultural sectors are most productive in terms of personal income.

TABLE I

COUNTY POPULATIONS AND LABOR FORCE

County	1960	1970	% Change 1960-1970	1975*	% Change 1970-1975	Labor Force*
Apache	30,438	32,304	+ 6.1	42,200	+30.6	9,950
Cochise	55,039	61,918	+ 12.5	76,000	+22.8	22,000
Coconino	41,857	48,326	+ 15.5	65,000	+34.6	25,200
Gila	25,745	29,255	+ 13.6	32,800	+11.9	13,250
Graham	14,045	16,578	+ 18.0	19,600	+18.1	5,125
Greenlee	11,509	10,330	- 10.2	11,900	+15.5	5,675
Maricopa	663,510	968,487	+ 46.0	1,230,000	+26.9	493,200
Mohave	7,735	25,857	+234.2	36,600	+41.3	10,925
Navajo	37,994	47,559	+ 25.2	55,800	+17.2	14,625
Pima	265,660	351,667	+ 32.4	452,000	+28.5	156,800
Pinal	62,673	68,579	+ 9.4	84,500	+23.2	28,600
Santa Cruz	10,808	13,966	+ 29.2	18,100	+29.3	7,825
Yavapai	28,912	36,837	+ 27.4	49,600	+34.9	14,775
Yuma	46,235	60,827	+ 31.6	71,000	+16.8	25,225
Arizona Total	1,302,161	1,772,482	+ 36.1	2,245,000	+26.6	833,165

Source: 1970 Census of Population.

*Arizona Department of Economic Security estimates.

Economic Problems and Potentials

Regional Commission: Criteria for Designation

The criteria which must be met to the satisfaction of the Secretary of Commerce prior to the designation of a Regional Action Planning Commission are these:

1. The Governors of the States in the proposed region must concur in and request the designation.
2. There must be a relationship among the areas within the proposed region — geographically, culturally, historically, and economically.
3. The proposed region must be within contiguous states.
4. The Secretary of Commerce must find upon consideration of the following matters, among others, that the region has lagged behind the whole nation in economic development. The following factors are considered:
   a. The rate of unemployment is substantially above the national rate.
   b. The median level of family income is significantly below the national median.
   c. The level of housing, health, and educational facilities is substantially below the national level.
   d. The economy of the area has traditionally been dominated by only one or two industries, which are in a state of long term decline.
   e. The rate of out-migration of labor or capital or both is substantial.
   f. The area is adversely affected by changing industrial technology.
   g. The area is adversely affected by changes in national defense facilities or production.
   h. Indices of regional production indicate a growth rate substantially below the national average.

The economic and social problems which Arizona faces are of such magnitude that the State substantially meets these criteria. Some of the major problems are discussed herein, statistically verified where possible. Yet whether they are statistically verifiable or not, we should remember that these problems impact upon human beings, exacting an economic, physical, and spiritual toll from them and ultimately from the region and the nation as a whole. Each of these problems could be attacked through the work program of a Regional Action Planning Commission.

Unemployment Problems

Since 1975, Arizona as a whole has been severely affected by unemployment. During the first six months of 1975, statewide unemployment was 9.7 percent, compared with a national average of 8.4 percent. In recent years the unemployment rates for three of Arizona's four border counties have been higher than the statewide average (Table II), except during early 1975.

Table II

Unemployment Comparisons

	1972	1973	1974	1975 (6 months)
Statewide	4.3%	4.1%	5.6%	9.7%
Cochise County	4.5%	4.5%	5.9%	9.2%
Pima County	4.0%	3.4%	4.5%	7.6%
Santa Cruz County	9.2%	8.9%	12.4%	13.9%
Yuma County	5.6%	5.7%	6.7%	8.1%

Source: Arizona Department of Economic Security.

While Pima County, containing the City of Tucson, is a bright spot in this picture, it may be postulated that the unemployment rates among the County's ethnic populations are far higher, perhaps approximately the rate of Santa Cruz County, where over 77 percent of the population is of Mexican heritage or of a non-white ethnic origin.

Low Income

Arizona has traditionally lagged behind the United States as a whole in income levels. In 1970 median family income in the U.S. was $11,518, while in Arizona it was $9,187. Table III shows that all of the State's nonmetropolitan counties, except Greenlee and Mohave, ranked below the Arizona median and well below the national median. The State's two metropolitan counties, Maricopa and Pima, ranked below the national median.

Table III

Median Family Incomes: 1970

United States	$11,518
Arizona	9,187
Counties:	
Apache	5,006
Cochise	8,333
Coconino	8,714
Gila	7,886
Graham	7,262
Greenlee	10,043
Maricopa	9,855
Mohave	9,240
Navajo	6,849
Pima	8,942
Pinal	7,934
Santa Cruz	7,947
Yavapai	7,405
Yuma	8,188

Source: Bureau of Census

Public Welfare

As we would expect, given the recent high unemployment in Arizona and the low levels of family income, public welfare assistance is significant. During FY 1976-77 it is estimated that there will be over 65,000 recipients of aid for dependent children. The number of recipients has declined slightly each year since 1973, although the average monthly payment has increased slightly. The number of food stamp recipients has risen signficantly since 1973, when 78,742 recipients were reported. In 1975, the total number of recipients was 164,978. The average monthly public contribution toward the cost of a recipient's food stamps had risen from $17.02 in 1973 to $24.35 in 1975. In those schools which participate in the subsidized lunch program, students from low income families (under $5,010/year for a family of four) may obtain free lunches. In FY 1974-75, approximately 33 percent of students in participating schools received free lunches. Statistical documentation of these findings is contained in the Appendix of this report.

Education

Better education is generally accepted as one avenue to economic improvement. A survey of education in Arizona provides a mixed picture, bright in some areas, but with room for significant improvement in others.

Primary Education. The Statewide Achievement Testing Program, conducted pursuant to Arizona Revised Statutes, Title 15: 1131-1134, has provided information about basic reading and math skills of Arizona students. Testing results indicate individual skill levels as compared to a national average, aiding in the identification of group as well as individual strengths and weaknesses.

The 1973 Standford Reading Achievement Test, Form A, Primary Level II was given to 33,972 grade students in October, 1975. The tests are designed to measure 18 skill areas which result in two scores — Reading and Auditory. The auditory score reflects vocabulary and listening comprehension; the reading score reflects word reading, paragraph reading and word study skills. See the Appendix of this report.

The 1973 Standford Mathematics Achievement Test, Form A, Intermediate Level I, was given to 36,571 fifth grade students in October, 1975. This test is designed to measure 12 skill areas in three levels — mathematical concepts, mathematical computation and mathematical application.

Results of these tests indicated that skill levels, statewide, are equivalent to or better than national figures. However, results also indicated that in areas of high Indian, Black and Spanish surname populations, the skill levels fell below both the national and the statewide norms. Statistical results of these tests are contained in the Appendix of this report.

Public Health

Arizona's Areawide Health Planning Councils have identified inadequacies in preventive, diagnostic, therapeutic and rehabilitative health service programs. These inadequacies have been attributed to some degree to shortages in financial resources, manpower and health care facilities. Areas of need include behavorial, environmental, emergency and prevention programs, educational services, low income assistance and services to rural areas.

Examination of adequacy of health care is instrumental to improving health status; however, birth and death rates and disease prevalence statistics are more widely considered to be useful indicators of a population's health. Arizona birthrates, consistently higher than national levels, have paralleled the declining national trend since the 1957 peak until 1973. A slight increase occured in most Aizona counties in 1974. (See Table IV) Mortality rates for leading causes are provided by county in the Appendix of this report. Heart disease and cancer are the leading causes in Arizona as well as the nation. Further ranking reveals differing placement in Arizona and national rates. Speculation as to unique variables for each cause and county has been made by the Arizona Department of Health Services. In Santa Cruz County for example, the high death rates of bronchitis, emphysema and asthma, diabetes and congenital anomalies might be attributed in part to the poor nutritional condition of the predominantly Spanish surname population; the county's unemployment rate has been the highest in the State for years, and the median family income is relatively low.

Health facilities such as hospitals, nursing homes, personal care facilities, ambulatory care center, public health centers, and rehabilitation centers, have recently been inventoried in Arizona pursuant to Arizona Revised Statutes 36-125.02 which provides for the development of a State Health Facilities Plan for construction and modernization of health care facilities. Also, the National Health Planning and Resources Development Act of 1974 requires that a State Medical Facilities Plan be approved by the Secretary of the Department of Health, Education and Welfare prior to federal funding. Anticipated priorities for Arizona include: 1) improvement in rural and low income areas, 2) modernization of existing facilities in metropolitan areas, and 3) construction of out-patient facilities in rural and urban low income areas; Arizona currently has 81 hospitals with 11,884 beds, 73 skilled care nursing homes with 5,373 beds, 16 personal care facilities with 1,080 beds, 73 ambulatory care centers, 32 public health facilities, and 6 rehabilitation facilities.

Land Ownership

Land ownership in Arizona is characterized by the overwhelming presence of public control. Federal agencies control 44.6% of Arizona land directly, while 27.0% is held in trust for the Indian tribes. The Arizona State Land Department manages 13.2% of Arizona land, while private interests hold only 15.2%. Land management decisions made by any of the major agencies has the potential to severely affect conditions in adjacent lands. Recent policy problems regarding air and water pollution have made State and local officials acutely aware of these interactions. Coordination of intergovernmental land management decisions is becoming a necessity. Of additional concern, the small percentage of private land restricts economic development opportunities within the State, making it essential that land be developed to its highest and best use. In both intergovernmental coordination and optimum development, a Border Commission could make vital contributions.

Housing Conditions

As Table V shows, a significant percentage of Arizona's housing stock is inadequate. While the statistics do not verify this, we may surmise that the inadequate housing supply impacts most heavily on rural Arizonans, and the State's ethnic minorities.

91-139 O - 77 - 14

TABLE IV

BIRTH RATES* BY COUNTY
OF RESIDENCE
1970 - 1974

	1970	1971	1972	1973	1974
Apache	42.4	39.1	39.9	34.6	34.5
Cochise	21.8	23.4	22.1	21.3	20.5
Coconino	29.1	27.0	24.1	23.9	23.3
Gila	23.7	23.7	20.3	20.3	21.7
Graham	22.4	21.2	22.3	19.7	20.2
Greenlee	22.5	27.6	20.6	24.6	23.4
Maricopa	20.3	19.4	17.8	17.3	17.6
Mohave	18.0	16.5	14.7	14.3	14.7
Navajo	31.2	28.9	27.2	27.1	26.9
Pima	19.2	19.0	17.9	16.6	16.9
Pinal	22.7	22.5	21.1	20.3	21.2
Santa Cruz	21.3	23.1	21.1	23.2	20.6
Yavapai	14.7	14.2	14.9	12.6	12.8
Yuma	22.9	24.0	22.1	21.9	22.6
Statewide	21.2	20.6	19.1	18.3	18.5
U.S.	18.4	17.2	15.6	14.9	15.0

*Per 1,000 estimated mid-year population

Source: Health Information Services, Arizona Department of Health Services.

TABLE V

HOUSING CONDITIONS*
BY COUNTY
1970

	Adequate Housing	Inadequate Housing
Apache	2,506	4,266
Cochise	13,340	4,538
Coconino	8,441	4,013
Gila	5,944	2,832
Graham	3,157	1,168
Greenlee	2,297	725
Maricopa	240,833	62,600
Mohave	6,967	1,601
Navajo	5,983	5,235
Pima	86,279	24,354
Pinal	12,515	5,471
Santa Cruz	2,549	1,268
Yavapai	10,448	2,551
Yuma	13,346	4,267
Statewide	414,605	124,889

*Based on 15% sampling, 4th 1970 Census, Figures approximate.

Source: U.S. Department of Housing and Urban Development.

International Trade, Industry, and Tourism

Trade. Table VI, which gives a partial listing of imports and exports at Nogales, offers some insight into the growing magnitude of border trade. The data upon which this table is based are contained in the Appendix of this report.

TABLE VI

U.S. Imports and Exports at Nogales

	1973	1974
Exports	$176,336,009	$250,300,370
Imports	$348,091,631	$370,223,021

Source: U.S. Department of Commerce.

Industry. To encourage industry, in 1965 the Mexican Ministry of Commerce and Industries ruled that foreign companies could incorporate in designated border cities with 100 percent or less non-Mexican ownership to assemble articles from foreign components, provided such articles are sold outside of Mexico. This dove-tailed with sections 806.3 and 807 of the U.S. Tariff Code which states that articles assembled abroad with U. S. made components would only be dutiable upon return to the U. S. on the basis of value added abroad. Despite numerous and intensive assaults on these provisions, they still stand. Mexico adopted compatible regulations to provide employment in its obrder cities. United States companies found such industrial ventures relatively attractive and less expensive administratively than similar.operations in Europe and the Orient.

Currently, assembly plants operating under these provisions employ over 70,000 Mexican nationals in Mexico and 10,500 in the U. S. border cities in direct manufacturing jobs. There is an estimated employment multiplier of 2.3 in Mexico for such jobs, resulting in an additional 163,000 jobs in that country. The employment multiplier for the U. S. jobs is an estimated 1.3, yielding 13,650 additional jobs in the U. S. border cities.*

Certain problems continually arise in the administration of this program on both sides of the border. U. S. firms are hampered by: 1) varying U. S. customs interpretation as to the dutiable components in value; 2) constant threats of termination of section 806.3 and 807 of the U. S. tariff code; 3) the persistent efforts by a small percentage of U. S. companies to violate customs regulations; 4) lack of adequate U. S. transportation and communications to the U. S. border cities; and 5) amenity differentials in the U. S. border. The problems on the Mexican side of the border include 1) complications regarding original acquisition and renewal of Mexican work permits for U. S. personnel; 2) local Mexican customs regulations interpretation; 3) deficient telephone service; 4) spiraling Mexican wage rates now starting to overtake productivity; and 5) a relative policy of neglect of the border areas by Mexico.

*Source: Office of Economic Planning and Development

Industrial development on both sides of the border in this region has several avenues available for growth: first, intensified verticalization of the long term and existing natural resources based industry; second, the traditional industrial development functions of attracting new industry because of locational advantage, and third, the expansion of the twin plants development and agreement on the desirability of such an effort.

Tourism. On both sides of the border tourism is important. It is Mexico's third largest industry, earning $1 billion per year. While governments on each side are taking steps to facilitate and encourage international travel, this may require an accelerated effort if the anticipated tourist development boom along Mexico's Pacific coast becomes a reality. Conditions such as Nogales' "Border Road to Nowhere" will require aggressive solution. (*The Christian Science Monitor*, April 16, 1976, contains an article discussing in detail the frustrations being encountered in completing the new border crossing at Nogales.)

The Border Region: Socio-Political Problems

Previously in this staff report we established that Regional Action Planning Commissions adopt a broad rather than a narrow view of economic development problems and solutions, recognizing that economic development is justified only if it contributes to human physical, cultural and social advancement. This underlying philosophy is clearly reflected in the projects funded by the Commissions. We further established, to our satisfaction at least, that Congress intends the member states who were invited to form a Regional Action Planning Commission to be cognizant of the international implications of their joint endeavors. Therefore, it is appropriate to briefly consider come of the social and political problems of the border region — problems which should receive the attention of the proposed Border Commission.

Illegal Aliens

The flow of illegal aliens into the United States has become so heavy and the problems created thereby have become so significant and widespread that the National Governors' Conference adopted this 1975-1976 policy position:

> Recognizing that the numbers of illegal aliens coming into this country seeking employment has increased dramatically and that this flood of immigrants exacerbates unemployment problems in both rural and urban areas, the National Governors' Conference urges the federal government to commit the resources necessary to ensure that legal limits on immigration are observed. To further discourage immigration and exploitation of such illegal aliens the Conference recommends enactment of legislation to prohibit the knowing employment of illegal aliens. However, enforcement of these sanctions should be consistent with the free exercise of the civil rights of all people.

In the Tucson and Yuma, Arizona, areas, 85,519 illegal aliens were apprehended and returned to Mexico in 1975. During the first four months of 1976, 29,197 were apprehended. The problems of illegal entry, therefore, is real. In consequence, it creates severe social welfare, labor, and legal problems throughout the nation. Yet, it is a problem which should be approached with compassion rather than harshness, for each statistic represents a human being who decided it was necessary to leave the place of his birth to seek a better life in (from his perspective) an alien land. America, of course, was founded by people who were forced to make similar decisions. The Appendix of this report contains a *New York Times* rticle which points out some of the human problems created by illegal immigration.

A Border Commission could surely assist in developing progressive programs, such as bi-national industrial development, which might assist in solving the illegal alien problem.

Illegal Importation of Drugs

The National Governors' Conference has also expressed its concern with the proliferation of narcotics and drug abuse problems, recommending that "diplomatic pressure to halt the illegal importation of narcotic substances should be intensified and programs to reduce the production of such substances should be promoted". An estimated 90 percent of the heroin sold illegally in the U. S. has its origins in the mountains of northwestern Mexico. The most cursory analysis of the problem shows that economic underdevelopment is a major contributing factor. For many poor Mexicans, the opium poppy is the only cash crop they have ever grown.

International Relations

It is not far-fetched to postulate that a Border Commission, while pursuing its mandate of economic development, can make a contribution to improved international relations between the United States and Mexico. Every additional job created along the border (on both sides) every border issue which is approached in a spirit of cooperation, rather than mistrust and antagonism, will strengthen the ties between the two countries. Since Mexico's population is projected to approach 100 million by the year 2000, it is obvious that border conditions will require more intensive attention for the foreseeable future.

Furthermore, a successful border program with Mexico will lead to improved relations with other Latin American nations as well. This potential contribution should not be ignored. Latin America possesses an economy which is both a challenge and an opportunity for the United States. Costs of imported capital goods and oil have had significant impacts on some Latin American nations. Yet, long term economic trends appear promising. Today the total output of Latin America's 300 million people is comparable to that of Western Europe in 1950. According to economists associated with the Inter-American Development Bank, by the turn of the century the anticipated 600 million Latin Americans will have caught up to the Soviet Union in per capita income. A Border Commission can play a significant role in exploring avenues for integrating the economies of the two Americas.

TABLE VII

Arizona Gross State Product*
as a Percentage of National Totals

	1960	1965	1970	1973	1975	1980
Agriculture	1.077	1.078	.899	.846	.901	.713
Mining	1.835	2.237	2.780	2.848	3.163	3.445
Construction	1.236	.734	1.104	1.571	1.196	1.115
Manufacturing	.301	.362	.463	.514	.513	.665
TCPU**	1.279	1.329	1.583	1.758	2.010	2.547
Trade	.688	.698	.814	.909	1.061	1.287
FIRE***	.737	.801	.861	1.026	1.232	1.867
Services	.695	.772	.879	.963	1.160	1.418
Government	.860	.921	.985	1.107	1.386	1.723

*Gross state product is the market value of all final goods and services produced during a year.

**Transportation, Communications, Public Utilities

***Finance, Insurance, Real Estate

Source: Arizona Office of Economic Planning and Development.

TABLE VIII

Sectoral Percent of Total State Output

	1960*	1970*	1975*	1980**
Agriculture	7.270	3.935	2.896	1.970
Mining	7.435	8.470	6.519	4.876
Construction	8.279	4.595	3.302	2.468
Manufacturing	13.087	17.779	16.557	18.248
TCPU	8.870	9.462	10.086	10.597
Trade	17.455	18.186	18.857	18.499
FIRE	14.562	14.648	17.185	19.450
Services	10.010	10.746	11.175	11.260
Government	13.031	12.179	13.424	12.628
TOTAL	100.00	100.00	100.00	100.00

* Estimates

**Forecast - Arizona GSP/Revenue Forecasting Model.

Source: Arizona Office of Economic Planning and Development.

Economic and Demographic Trends

Economic Change and Potentials

While it would require volumes of data and analysis to present a comprehensive picture of Arizona's changing economy, a few salient facts and trends highlight the situation which the State as a whole confronts. The border counties are entering with the rest of the State an era of significant, long term economic change which will intensify in the decades ahead, creating major socio-economic dislocations for citizens, local governments, and the private business community.

The Arizona economic mix is changing significantly, both in relation to the national mix and among the State's economic components themselves. Table VII arrays Arizona's gross state product as percentages of national totals.

The statistics reveal that with the exception of agriculture and construction, all sectors of the Arizona economy are gaining an increasing share of national outputs. These gains are to be expected, since the State's population is burgeoining, yet they do *not* mean that the Arizona economy is approaching a trouble-free status through the automatic workings of the private enterprise system. What they *do* mean, as do the negative changes in agriculture and construction, is that Arizona's economy is in a significant condition of flux, and that the State's citizens will continue to experience significant economic dislocations, and local governments must expect to bear significant costs of developing physical infrastructures to adapt to the changing economy.

Table VIII, which shows how the internal mix of Arizona's economic components is changing, also reveals an economy in significant flux, with the traditional and well-established sectors of agriculture and mining declining as a percentage of gross state output.

The decline in construction is disturbing, and while the decline may indicate that the economy is simply catching up with excess construction in the recent past, it could indicate that Arizona's overall physical plant (from the single family house, to the city water and sewer system, to the major industrial facility) is not keeping pace with growth in population and changes in the economic mix. The border counties, which engage in significant agricultural and mining activity, may (though this is speculative pending further study) experience the most severe economic dislocations over the coming decades.

Demographic Trends

Arizona, with a geographic area of 113,909 square miles, has a population distribution of only 18.9 persons per square mile. This may be compared with 131.7 in California, 45.1 in Texas, and 9.2 in New Mexico. When we consider that 75 percent of Arizona's population is in its two metropolitan counties, the sparsity of population in the State's nonmetropolitan counties emerges even more starkly.

Yet, Arizona is one of the nation's fastest growing states in population. From July 1964 to July 1974, the statewide population grew by 38 percent, second in percentage growth only to Florida. This growth has been concentrated largely in the metropolitan counties, and without significant governmental intervention to encourage growth in the State's nonmetropolitan areas, this trend may be expected to intensify, with resultant social, environmental, and economic costs as well as benefits.

Current work within the Office of Economic Planning and Development has produced alternative sets of five year population forecasts, each based upon scenarios of development activities. The low projection is based upon events which have already begun or for which there is a high probability of beginning on schedule. The high projection assumes all events of the low projection, plus some additions in energy related and manufacturing sectors of the economy, with rapid economic recovery. Timing factors also significantly influence the scenario developments and projections.

TABLE IX

High and Low Population Forecasts
Based on Alternative Economic Futures

Statewide Forecasts	1980	1985	1990	1995	1999
High	2,609,638	3,248,741	3,773,307	4,434,879	5,060,446
Low	2,369,194	2,596,362	2,875,198	3,145,658	3,391,485

Source: Arizona Demographic and Economic Projection Model.

APPENDIX

PUBLIC ASSISTANCE PROGRAMS

ESTIMATED UNDUPLICATED MONTHLY AVERAGES

FY '76-'77

	RECIPIENTS			HOUSEHOLDS
	Aid for Dependent Children	General Assistance	Tuberculosis Control	Food Stamps
Apache	7,496	5	-	1,065
Cochise	1,841	62	1	1,302
Coconino	2,362	29	-	816
Gila	801	33	-	616
Graham	814	19	-	442
Greenlee	198	3	-	145
Maricopa	29,264	1,902	17	21,420
Mohave	361	25	1	454
Navajo	2,541	6	-	816
Pima	13,800	881	3	10,792
Pinal	3,850	143	-	1,810
Santa Cruz	322	9	-	355
Yavapai	472	15	-	697
Yuma	1,182	60	4	792
ARIZONA	65,304	3,192	26	41,522

Prepared by
Bureau of Statistical Information,
Research and Analysis
April, 1976

AID TO DEPENDENT CHILDREN

	1975		1974		1973	
	Avg. Mo. # of Recipients	Avg. Mo. Payments	Avg. Mo. # of Recipients	Avg. Mo. Payments	Avg. Mo. # of Recipients	Avg. Mo. Payments
Apache	7,513	$31.48	6,678	$29.38	6,771	$20.30
Cochise	1,919	38.12	1,757	35.60	1,617	34.98
Coconino	3,579	33.62	4,108	31.18	4,120	30.75
Gila	802	35.68	730	32.25	946	30.33
Graham	839	37.29	845	32.86	898	33.13
Greenlee	212	34.62	173	32.62	162	30.84
Maricopa	31,246	40.96	32,624	37.76	31,782	37.06
Mohave	422	38.35	481	34.55	465	33.34
Navajo	2,569	32.69	3,901	29.93	4,213	29.18
Pima	14,662	40.46	14,117	36.75	13,959	35.63
Pinal	3,874	36.83	3,709	33.28	3,768	33.16
Santa Cruz	350	34.42	476	32.49	559	35.22
Yavapai	529	37.84	588	35.61	674	34.56
Yuma	1,357	37.55	2,003	34.89	2,246	35.14
Total State	69,873	$38.59	72,190	$35.43	72,180	$34.71

AVERAGE FOOD STAMP BONUS PER RECEIPIENT/MONTH

	1975		1974		1973	
	Avg. Mo. Bonus	Avg. Mo. # of Recipients	Avg. Mo. Bonus	Avg. Mo. # of Recipients	Avg. Mo. Bonus	Avg. Mo. # of Recipients
Apache	$21.10	4,096	$22.95	591	$16.15	407
Cochise	22.26	5,577	20.94	4,351	14.43	2,920
Coconino	24.05	3,052	24.22	1,875	17.91	1,214
Gila	21.09	2,461	20.71	1,856	14.74	1,110
Graham	20.34	2,077	19.16	1,549	14.50	1,212
Greenlee	20.91	537	24.26	648	14.36	402
Maricopa	24.65	87,757	23.35	52,747	17.18	40,673
Mohave	24.03	1,612	22.97	1,244	17.54	1,082
Navajo	20.42	3,386	18.65	1,929	14.31	1,704
Pima	25.85	38,600	25.19	28,100	18.36	17,956
Pinal	22.84	8,191	20.43	6,301	14.94	5,131
Santa Cruz	20.61	1,780	19.77	1,287	15.76	884
Yavapai	23.57	2,372	23.75	1,889	17.33	1,599
Yuma	22.97	3,480	22.55	2,454	16.22	2,448
State	$24.35	164,978	$23.33	106,821	$17.02	78,742

Bonus amount is difference between the amount paid for the food stamps and the value of the food stamps.

ARIZONA'S SCHOOL LUNCH PROGRAM

FY 74 - 75

	Number of Meals Served	Lunch Fund Expenditures	Average Daily Patricipation*	Average Percentage of Students Participating
Apache	1,382,669	$ 1,347,284.13	8,924	68%
Cochise	1,079,130	933,295.56	7,751	41
Coconino	1,004,271	951,673.44	5,872	37
Gila	529,343	511,844.18	3,386	41
Graham	385,234	313,984.43	2,479	48
Greenlee	158,890	138,225.60	854	28
Maricopa	19,283,498	14,013,087.32	122,611	44
Mohave	351,502	297,502.69	2,193	27
Navajo	785,189	713,140.87	6,246	43
Pima	6,829,524	6,785,055.70	41,116	41
Pinal	1,730,501	1,387,482.25	10,413	48
Santa Cruz	379,261	200,125.20	2,910	52
Yavapai	452,368	344,618.14	2,921	27
Yuma	1,509,262	1,164,128.44	9,777	54
Statewide	35,860,642	$29,101,447.95	227,453	45%

*September - April, 1976 data includes private schools

Source: Annual Report of the Superintendent of Public Instruction, Department of Education, State of Arizona 1974-1975

GRADE SCHOOL ACHIEVEMENT TEST RESULTS
1975 TESTING

Grade Equivalent of the Raw Score Mean

	Primary II, 1973 Stanford Reading Test Grade 3		Intermediate I, 1973 Stanford Mathematics Test, Grade 5
	Reading	Auditory	
Apache	2.5	2.0	4.2
Cochise	2.8	2.8	5.2
Coconino	2.9	2.9	5.0
Gila	2.8	2.7	4.8
Graham	2.8	2.7	4.8
Greenlee	3.1	3.2	5.0
Maricopa	3.1	3.1	5.1
Mohave	3.0	3.1	5.0
Navajo	2.6	2.4	4.7
Pima	2.9	3.0	5.0
Pinal	2.7	2.7	4.6
Santa Cruz	2.4	2.4	4.7
Yavapai	3.4	3.5	5.2
Yuma	2.6	2.5	4.8
Statewide	2.9	3.0	5.0
National	2.8	2.9	5.0

Mathematics Test Results, 1975
General Statistical Analysis

Ethnic	Number	Percent of Total	Grade Equivalent Raw Mean Score
Invalid Response	4,129	11.51	5.2
Angloe White	20,723	57.78	5.3
Spanish Surnamed	7,244	20.20	4.5
Black	1,225	3.42	4.2
American Indian	2,094	5.84	3.9
Oriental	229	.64	5.8
Other	222	.62	5.3
Statewide	--	--	5.0
National	--	--	5.0

91-139 O - 77 - 15

Reading Test Results, 1975
General Statistical Analysis

	Number	Percent of Total	Grade Equivalent Raw Score Mean Reading	Grade Equivalent Raw Score Mean Auditory
Ethnic				
Invalid Response	2,607	7.80	3.2	3.3
Anglo White	20,138	60.27	3.3	3.3
Spanish Surnamed	7,137	21.36	2.6	2.3
Black	1,156	3.46	2.6	2.4
American Indian	2,017	6.04	2.3	1.9
Oriental	200	.60	3.4	3.2
Other	159	.48	3.2	3.1
Language Spoken At Home				
Invalid Response	339	1.01	2.7	2.5
English	25,440	76.14	3.2	3.3
Spanish	1,916	5.73	2.4	2.0
English & Spanish	4,064	12.16	2.6	2.4
Indian	648	1.94	2.0	1.4
English & Indian	822	2.46	2.4	1.9
Oriental	41	.12	3.0	3.0
Other	70	.21	2.8	2.8
None Above	74	.22	3.2	3.2
Statewide	--	--	2.9	3.0
National	--	--	2.8	2.9

GENERAL EDUCATION STATISTICS

PUBLIC SCHOOL SYSTEM, GRADES K-12

FY 1974-1975

	Approximate Average Daily Membership	Number of Teachers	Student Teacher Ratio
Apache	10,871	518	21:1
Cochise	18,312	843	22:1
Coconino	13,997	693	20:1
Gila	7,747	337	23:1
Graham	4,953	194	25:1
Greenlee	3,022	148	20:1
Maricopa	258,379	11,747	22:1
Mohave	8,096	398	20:1
Navajo	12,030	553	22:1
Pima	91,268	3,943	23:1
Pinal	21,099	1,013	21:1
Santa Cruz	5,204	219	24:1
Yavapai	10,179	461	22:1
Yuma	17,277	790	22:1
Statewide	482,433	21,857	22:1

Source: Annual Report of Superintendent of Public Instruction, 1974-1975.

RATES* FOR SELECTED CAUSES OF DEATH BY COUNTY OF RESIDENCE
U.S. and Arizona 1974

	Heart Disease	Cancer	Stroke	Accidents Motor Vehicle Other	Influenza & Pneumonia	Bronchitis, Emphysema & Asthma	Suicide	Alcoholism**	Symptoms & Ill-defined Conditions	Certain Causes of Mortality in Early Infancy	Diabetes	Homicide	Arteriosclerosis	Diseases of Arteries, Arterioles & Capillaries other than Arteriosclerosis	Congenital Anomalies	All Other Causes	ALL CAUSES
Apache	94.1	74.3	22.3	230.2	26.8	5.0	22.3	37.1	71.8	22.3	22.3	24.8	2.5	5.0	7.4	126.2	793.1
Cochise	195.6	137.7	79.9	64.7	36.4	17.9	17.9	12.6	15.2	19.3	15.2	5.5	2.8	12.4	5.5	75.8	712.1
Coconino	97.8	70.5	30.4	86.5	17.6	3.2	19.3	24.0	30.4	22.4	--	4.8	4.8	6.4	4.8	60.9	484.0
Gila	322.1	141.1	52.1	104.3	27.6	18.4	39.9	82.8	27.6	18.4	21.5	3.1	3.1	9.2	6.1	135.0	1012.3
Graham	302.1	156.3	104.2	62.5	36.5	15.6	--	20.8	26.0	15.6	15.6	26.0	31.3	5.2	10.4	93.8	921.9
Greenlee	252.1	168.1	33.6	25.2	16.8	8.4	--	25.2	--	16.8	--	25.2	25.2	16.8	8.4	84.0	705.9
Maricopa	261.2	149.2	75.2	58.4	21.2	18.6	18.2	16.6	10.7	13.3	12.7	11.1	11.1	8.7	7.8	94.4	788.3
Mohave	334.3	195.5	102.0	113.3	17.0	19.8	28.3	14.2	34.0	8.5	11.3	17.0	2.8	14.2	11.3	82.2	1005.7
Navajo	131.3	46.5	21.6	104.3	25.2	1.8	7.2	34.2	30.6	27.0	12.6	16.2	9.0	12.6	10.8	127.7	638.5
Pima	209.7	153.2	62.5	52.8	24.7	26.3	18.5	13.8	4.7	7.2	11.3	12.2	10.1	9.9	6.9	103.3	809.2
Pinal	190.6	108.6	60.3	109.8	21.7	16.9	13.3	16.9	37.4	8.4	14.5	15.7	13.3	12.1	8.4	85.6	733.4
Santa Cruz	187.1	122.8	52.6	40.9	23.4	46.8	11.7	17.5	--	17.5	23.4	11.7	5.8	17.5	17.5	64.3	660.8
Yavapai	382.4	186.0	120.7	69.5	51.1	45.0	32.7	26.6	12.3	--	14.3	12.3	34.8	20.4	2.0	149.3	1157.9
Yuma	268.4	113.6	82.6	126.8	19.2	17.7	20.6	14.7	16.2	14.7	8.8	5.9	14.7	8.8	2.9	86.3	820.1
Statewide	255.6	142.5	69.8	68.4	23.2	19.6	18.4	18.2	14.1	12.7	12.4	11.6	10.9	9.6	7.4	96.7	791.0
(Rank)	1	2	4	3	5	6	8	7	9	10	11	13	12				
U.S.	253.1	169.3	97.2	48.9	25.7	12.4	12.5	N.A.	13.9	13.2	17.4	9.8	15.2	12.4	6.5	N.A.	914.4
(Rank)	1	2	3	4	5	10	11		6	9	7	12	8				

*Per 100,000 estimated mid-year population.
**Includes alcoholism, alcoholic psychosis, and alcoholic cirrhosis of the liver.
N.A. Not Available.

A.35

U.S. EXPORTS AT NOGALES

Partial Listing (In Dollars)

U.S. Major Exports 1973
Total Exports - $176,336,009

AGRICULTURE	$ VALUE
Soybeans	2,396,177
Soybean Oil - Cake and Meal	1,445,303
Vegetable Seeds	1,060,352
Hay, fodder, roots	81,375
Livestock feed, prepared	580
CHEMICALS AND RELATED PRODUCTS	
Natural Gas	1,913,907
Nat. Gas Liquids incl. LPG	1,684,940
Fab Bl Nec SPN P Ester	4,484,674
Tex Fab Nec MMF Resin Coated	1,709,384
DAIRY PRODUCTS	
Milk and Cream	568,124
Milk and Cream Evap	556
Milk Whole Dry	4,438
Non Fat Dry Milk	4,000
Milk and Cream Fresh	23,596
Butter	600

ELECTRIC EQUIPMENT & PARTS

In/Outpt Dv Elec Comp & pts.	1,423,961
PTS & ACC for Computers	3,898,089
Calculating Mach. Parts	7,664,412
Rad Parts & Acc	14,170,213
Relay inc. parts	5,935,832
Pts & Acc for elec tubes	1,437,669
Pts for Diodes	18,846,370
Electronic Parts	13,716,959
Sound Recorders	526,430

HEAVY EQUIPMENT AND PARTS

Cars 6 CY	1,246,206
Trucks & Trailors off Hiway	1,308,140
Pts & Acc Trucklaying Trctrs	1.995,035
A/C used reblt or conv	2,000,000
DSL Engines	113,290
Mch for Prod semicond	1,224,683
Trucks ASM	1,150,142

U.S.IMPORTS AT NOGALES

Partial Listing (In Dollars)

Nogales, Arizona District 26	1970	1972	1973	1974
Total Imports	210,332964	277,836,874	348,091,631	370,223,021
U.S. Goods Returned	4,410,196	15,249,490	8,612,115	15,159,641
Tomatoes	89,631,920	79,923,231	104,546,790	55,158,861
Electronic Equip.& Pts.	17,084,071	41,852,047	4,283,022	75,659,959
Shrimp	32,144,364	31,381,490	38,854,957	45,590,405
Cattle	14,363,080	15,299,490	45,227.772	10,056,939
T.V.Apparatus & Parts	596,781	14,951,567	13,727.156	9,117,004
Cucumbers	9,493,510	12,061,329	12,141,646	6,834,290
Peppers	10,752,075	9,584,615	14,804,984	7,454,145
Squash	3,325,396	4,895,773	4,704,212	2,008,973
Office Machine Parts	310,707	3,886,842	7,863,596	11,824,670
Men's Apparel	186,799	3,707,519	7,261,936	1,013,408
Eggplant	2,504,523	3,304,645	4,149,065	4,084,025
Canteloupe	2,007,865	2,338,034	3,271,732	3,956,636
Electric Power Machines	898,219	2,323,247	3,741,055	900,621
Beans, Fresh or Frozen	1,640,069	2,233,196	1,970,715	7,559,339
Luggage and Materials	169,266	2,179,922	4,972,204	1,858,057
Watermelon	1,761,327	1,731,685	2,039,614	2,784,945
Leather Goods Except Footwear	438,248	1,330,818	1,749,718	508,733
Rectifiers and Rectifying Apparatus	392,651	1,265,636	30,148	1,432,675
Alcoholic Beverages	1,050,703	1,116,937	3,875	4,925
Graphite Material	1,031,748	1,067,961	1,423,155	1,494,573
Furniture & Parts	91,365	1,006,654	807,606	1,459.157
Woodwind Parts	108,520	992,813	1,792,354	2,291,373
Peas	1,072,389	989.360	1,253,924	900,621
Air & Spacecraft Parts	155,572	869,819	94,084	44,968
Fluorspar	669,364	846,189	25,165	-
Women's Apparel	781,687	345,056	402,709	2,144,107
Footwear	674,074	551,774	401,313	677,875
All Other	-	-	123,609,274	106,802,254

Source: U.S.Department of Commerce, Foreign Trade Division.

Pts & Acc New Motor veh.	1,590,850
METALS AND RELATED PRODUCTS	
Aluminum tubes & Pipes	301,019
Aluminum Wire Bale	286,116
Copper Wire Bale	383,592
OTHER MFG. PRODUCTS	
Sport Shirts	1,544,020
Plastic Packaging except film	822,329
ALL OTHER	80,522,788
TOTAL	$176,336,009

*Source: U.S. Department of Commerce, Foreign Trade Division

U.S. EXPORTS AT NOGALES

Partial Listing (In Dollars)

U.S. Major Exports 1974
Total Exports - $250,300,370

AGRICULTURE	$ VALUE
Grains, Sorghums, unmilled	6,734,219
Hay, Fodder, Roots	1,163,143
Liverstock Feed, Prepared	1,249,938
Vegetable Seeds	1,163,462
CHEMICALS AND RELATED PRODUCTS	
Propane	1,360,083
Nat Gas Liquids Incl. LPG	4,959,774
Fab Bl Nec SPN P Ester	4,103,940
Narrow Fab Novelas Mn: MC	1,314,409
DAIRY PRODUCTS	
Milk and Cream Evap	636,290
Milk and Cream Condensed	41,705
Non Fat Dry Milk	35,750
Milk and Cream Fresh	28,205
Butter, Cheese, etc.	3,958
ELECTRIC EQUIPMENT AND PARTS	
Calculators Non Print Elecr.	1,192,330
Calculating Machine Parts	30,703,957
Digital elctr. Computers	966,467
Radio and TV parts	1,300,607
Electric Apparatus Nec.	9,966,639
Refrigerating Equipment	704,046
Mach. for Proc. Semicond. a pts.	2,233,254
Connectors, coaxical electr.	1,561,293
Relays, Mec. and parts	1,355,881
Primary batteries	1,562,661
Parts for Diodes Semicon.	20,174,869
Transistors	2,068,502
Electronic Parts	17,225,217
Pts and Acc for computer alt.	3,777,171
Sound Recorders	1,078,725
Parts and Acc nec.	1,087,603

HEAVY EQUIPMENT AND PARTS	
Tracklaying tractors	1,988,510
Parts for Tracklaying Tractors	2,686,759
Pts for locomotives	1,539,777
Cars 6Cy	1,225,056
Trucks ASM Gas	1,280,823
Trucks and Trailers off Hiways	2,399,080
Pts and Acc for motor veh. q	3,021,552
DSL Engines OV 200	717,451
METALS AND RELATED PRODUCTS	
Articles Iron and Steel	1,003,588
OTHER MANUFACTURED PRODUCTS	
Luggage	5,672,735
Sport Shirts	4,135,826
Spectacle Parts	1,140,939
Coat Tailor Wool	946,891
Wooden Furniture Pts.	840,223
ALL OTHER	102,179,347
TOTAL	$250,300,370

&Source: U.S. Department of Commerce, Foreign Trade Division

Gangs await Mexican aliens at border

New York Times

SAN YSIDRO, Calif. — Ruben Ochoa is 16 years old, one of 12 children of a poor farm laborer whose home is a dirt-floor shack in the Mexican state of Michoacan.

With no work to be had there, he and four companions set out for the north, hoping to slip across the border into the United States and find jobs to help ease their families' abject poverty.

After crawling through a hole in the border fence at midnight and proceeding about 75 yards, they were set upon by seven teenagers armed with knives, who took what little money they had and left Ruben writhing on the ground with a partially severed spinal cord.

Doctors at Edgemoor Hospital say that if he is ever to walk again, it will be on crutches with cumbersome steel braces on both legs.

Ochoa is one of hundreds of victims of gangs that roam the desolate seven-mile stretch on the American side of the border. The gangs, both Mexican and American, wait to ambush the swarms of illegal aliens that cross the frontier each night.

In the last five months at least five aliens have been killed and scores wounded in shootings and knifings during 93 reported robbery attacks.

Many women among the "wetbacks" have been raped after being robbed of their jewelry.

The most vicious of the bandit gangs, said by police here to be older Mexicans, usually flee back across the border and vanish into Tijuana's crowded slums before American and Mexican police and the Border Patrol learn of the attacks.

When they run afoul of the Border Patrol, the Mexican criminals — and gangs of Spanish-speaking Americans as well — toss their weapons into the underbrush and claim to be illegal aliens, knowing they will merely be taken back to Mexico, and can readily make their way back through the border fence.

Some of the gangs are armed with guns, but many rely on knives or clubs to avoid alerting the police or Border Patrol.

Capt. Loren E. Joslin, chief of San Diego police border operations, said reports of 93 robbery attacks, possibly involving 600 or 700 individual aliens, were meaningless because probably no more than 20 or 25 per cent of the attacks are reported.

"Unless they are badly injured, or apprehended by the Border Patrol, the

Continued on Page A-17

More about Gangs attack illegal aliens

Continued from Page A-1

illegal aliens just keep on walking north, hoping to disappear into the big city barrios," he said. "They know that if they report the attacks they will be deported back to Mexico or sent to jail and held as long as three months as material witnesses." The robberies, he said, recently have spread to the back streets and roads of towns on the American side, including San Ysidro, Chula Vista and Imperial Beach.

The attacks have increased as the flow of illegal aliens increases. The Border Patrol apprehended 29,600 last month, up one-third from a year ago. The increase is largely due to Mexico's burgeoning economic difficulties. Unemployment in Tijuana is running over 40 per cent.

There are two main areas of violence east and west of this city. One begins two miles east of here at Spring Canyon and extends through two other canyons to a particularly rugged section known as Smugglers Gulch. They are easily reached by the Mexican gangs from Tijuana's poorer Colonia Libertad section.

The other is westward near the Pacific Ocean, across a marshy stretch from Tijuana's Plaza Monumentale bull ring to the San Diego oceanfront suburb of Imperial Beach.

Joslin and Tijuana Police Chief Antonio Escobedo said many of the people who collect $50 to $250 from illegal aliens to guide them across the border are in league with the bandit gangs or compete with them.

The "guides," they said, either rob and abandon the illegal aliens or deliver them into the hands of the waiting gangs for a share of the loot, usually no more than a few dollars from any one alien.

Escobedo said 41 aliens from El Salvador were robbed recently by their guides. Many of the smuggled aliens, he added, have taken to mailing money to relatives or friends in California, refusing to pay the guides until they are delivered safely to the American destinations.

Capt. Burl Snider of the South Bay Police said the illegal alien who tries to make it on his own must pass through three lines of terrorists.

"The first and most dangerous area is 50 to 100 yards inside the United States, where he encounters the Mexican banditos from Tijuana, many of them hardened criminals in their 30s." he explained.

"Then, further on, he comes upon the usually younger American gangs or even other illegal aliens who, having themselves been robbed attack him and take his money. Finally, there are the teenage gangs operating along the back streets and roads of American communities near the border."

The border zone violence has reached such proportions that Jose Lopez Portillo, who will be elected president of Mexico July 4 without opposition, this week urged U.N. intervention. He said he would ask that the United Nations Universal Declaration on Human Rights be invoked to deal with the "border barbarism" and other problems of the illegal aliens.

Arizona Republic,
June 7, 1976,
p. 1

APPENDIX B.

STATE OF CALIFORNIA

Edmund G. Brown, Jr. Governor

I. POPULATION

The population of the three-country region has increased greatly over the past five years. San Diego has experienced a growth of 15.7% from 1970 to 1975 and Imperial has increased by 12.9%. Riverside County has increased by 26.0%. The region as a whole has increased by 15.0% which is more than three times both the state and national averages.

In San Diego, the 15.7% increase means more than 215,000 persons. This is despite a loss of 30,000 military personnel, so the actual growth has been even more marked. The incorporated cities in San Diego County grew by 132,250 for an advance of 12.4%, but the rural areas grew by 23.5%, an increase of about 70,000 persons.

Imperial County is experiencing a similar situation. While its population growth over the same five year period has been slower than San Diego's, that 12.9% increase is still more than twice the national average. Of the three largest cities in the county, only one has shown an increase in the year 1974-75, which means that the bulk of the growth in the county, 9,600 persons, was in the rural regions.

Riverside County's growth rate from 1970 to 1975 has been more than five times that of the national growth rate. In the 5-year period, Riverside County's population has increased 26%. This figure represents an increase of some 119,246 persons.

An additional statistical area of interest is the number of Spanish language or surname population in the three-county region. San Diego County has some 174,209 persons of Spanish language or surname, comprising 12.8% of the total population of the county.

Riverside County has 79,621 persons of Spanish language or surname, making up 17.3% of the total county population. Imperial County has the largest percentage of Spanish language or surname individuals. 46%, or 34,260 persons in Imperial County are of Spanish language or surname.

Clearly, the population growth in this area far exceeds national norms. This will put additional strains on the economy of this area both now and in the future.

POPULATION

	Imperial	San Diego	Riverside	Region	California	United States
1970	74,500	1,357,854	459,074	1,891,428	20,007,000	203,810,000
1975	84,100	1,571,700	578,500	2,174,300	21,113,800	213,631,000
% Change	+12.9%	+15.7%	+26.0%	+15.0%	+4.4%	+4.6%
1974	82,100	1,527,700	504,400	2,114,200	20,933,000	211,894,000
1975	84,100	1,571,700	578,500	2,174,300	21,113,800	213,631,000
% Change	+2.8%	+2.9%	+2.8%	+2.8%	+0.9%	+0.8%

POPULATION

	United States	Calif.	Imperial	Riverside	San Diego
Total Population	203,212,877	19,957,715	74,492	459,074	1,357,782
Spanish language or surname population	9,347,792	3,101,589	34,260	79,621	174,209
As % of total population	4.6%	15.5%	46.0%	17.3%	12.8%
Foreign born - Spanish surname or lang	1.802,332	654,481	10,328	15,669	36,758
As % of total population	0.9%	3.3%	13.9%	3.4%	2.7%
As % of Spanish lang. or surname	19.2%	21.1%	30.1%	19.7%	21.1%

Source: Bureau of the Census: County and City Data Book 1972
Bureau of the Census: 1970 Census of Population: General Social and Economic Characteristics: California

II. LABOR FORCE

While the population has increased substantially in all three counties since 1970, there has been an even more marked increase in the labor force. The population increase from 1970 to 1975 was 13.1% for the region, almost three times the national average of 4.6%. But the labor force for the region increased 31.7% from 1970 to 1975.

	1970 to 1975 Labor Force Growth		
	San Diego	Imperial	Riverside
% change in labor force	36.5%	26.8%	19.3%

San Diego experienced a 36.5% increase in the labor force versus only a 15.7% rise in the population. Riverside had a 19.3% increase in the labor force versus a 26.0% increase in population. Imperial faced a 26.8% increase in the labor force compared to the 12.9% increase in the population.

The rise in the labor force is due, obviously, in part to the increase in the population. The rest is due to increases in participation in the labor force. San Diego has had an increase from 33.5% in the five year span. Imperial has faced an increase from 34.5% to 38.8%, with the region going from 34.1% to 38.0% over the same period. There is every indication that this increase will continue.

With the large increases in population and labor force participation rates, this will put additional pressure on an economy that is already hit by high unemployment.

LABOR FORCE PARTICIPATION

	Imperial		San Diego		Riverside*	
	1970	1975	1970	1975	1970	1975
Population	74,500	84,100	1,357,854	1,571,700	459,074	578,500
Labor Force	25,700	32,600	455,854	621,000	164,418	196,176
Participation Rate %	34.5%	38.8%	35.5%	39.5%	35.8%	33.9%

	Region	
	1970	1975
Population	1,891,428	2,234,300
Labor Force	645,118	849,776
Participation Rate %	34.1%	38.0%

* Based on 40.2% of the San Bernardino-Riverside SMSA

III. UNEMPLOYMENT

The unemployment situation in these three counties can best be described as dismal. There is a total labor force of over 800,000 that faces a staggering 11.6% unemployment rate. That amounted to over 100,000 people out of work in the region in January 1976.

But the situation is much more complex than this. The employment in agriculture in Imperial County, the largest employer in the county, has fallen off by almost 50% since 1960.

The region has suffered almost a doubling in the number of people unemployed since 1973. San Diego's unemployment has gone from 35,000 in 1973 to 74,400 in March of this year. This is a 112% increase in the unemployment. The three counties considered together has gone from 50,862 persons unemployed in 1973 to 100,525 in January of this year. This amounts to 98% increase in the unemployment in this region in 3 years.

The region has also suffered extreme unemployment rates. During the last 6 years, the rate in San Diego has varied from a low of 6.1% in 1973 to a high of 11.6% in January of this year. This has been anywhere from 1.2% to 3.8% above the national average with the greatest difference coming in March of this year. In Riverside the rate has gone from 6.8% in 1973 to 10.4% in 1975. This is from 0.9% to 3.5% higher than the national rate. Imperial County has gone from a low of 10.0% in 1970 to a high of 15.5% in 1975. This has been from 4.9% to eight percentage points higher than the national figure and usually double that of the national average. The unemployment rate as of March 1976 was at a mere 12.4%.

91-139 O - 77 - 16

TABLE
RIVERSIDE
(based on 40.2% of Riverside-San Bernardino SMSA)
EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemploy-ment	Unemploy-ment %	Unemploy-ment% Cal	Unemploy-ment% US
1970	164,418	152,358	12,060	7.3%	7.2%	4.9%
1971	172,056	155,976	16,080	9.4%	8.8%	5.9%
1972	177,282	164,418	12,864	7.3%	7.6%	5.6%
1973	183,714	171,252	12,462	6.8%	7.0%	4.9%
1974	196,578	179,694	16,884	8.6%	7.3%	5.6%
1975	196,176	176,880	19,296	9.8%	9.9%	8.5%
March 1975	195,695	176,076	19,618	9.4%	9.2%	8.5%
Jan. 1976	197,985	176,960	21,025	10.4%	9.9%	7.8%
March 1976	199,673	178,729	20,994	9.8%	9.5%	7.5%

TABLE
SAN DIEGO COUNTY
EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemployment	Unemployment %	Unemployment% Cal	Unemployment% US
1970	455,000	415,000	40,000	8.8%	7.2%	4.9%
1971	496,000	453,000	43,000	8.7%	8.8%	5.9%
1972	529,000	493,000	36,000	6.8%	7.6%	5.6%
1973	577,000	542,000	35,000	6.1%	7.0%	4.9%
1974	605,000	558,000	47,000	7.8%	7.3%	5.6%
1975	621,000	549,000	72,000	11.6%	9.9%	8.5%
March 1975	610,200	540,000	70,200	10.7%	9.2%	8.5%
Jan. 1976	626,000	550,800	75,200	11,6%	9.9%	7.8%
March 1976	627,600	553,200	74,400	11.3%	9.5%	7.5%

TABLE
Imperial County
EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemploy-ment	Unemploy-ment %	Unemploy-ment% Cal	Unemploy-ment% US
1970	25,700	23,300	2,400	10.0%	7.2%	4.9%
1971	27,600	24,450	3,150	12.3%	8.8%	5.9%
1972	27,800	24,850	2,950	11.4%	7.6%	5.6%
1973	28,350	24,950	3,400	12.9%	7.0%	4.9%
1974	30,600	26,900	3,700	13.1%	7.3%	5.6%
1975	32,600	27,950	4,650	15,5%	9.9%	8.5%
March 1975	32,875	28,875	4,000	12,2%	9.2%	8.5%
Jan. 1976	34,800	30,500	4,300	11.8%	9.9%	7.8%
March 1976	32,850	28,700	4,150	12.4%	9.5%	7.5%

TABLE
REGION
EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemploy-ment	Unemploy-ment %	Unemploy-ment% Cal	Unemploy-ment% US
1970	645,118	590,658	54,460	8.4%	7.2%	4.9%
1971	695,696	633,426	62,230	8.9%	8.8%	5.9%
1972	734,082	682,268	51,814	7.1%	7.6%	5.6%
1973	789,064	738,202	50,862	6.4%	7.0%	4.9%
1974	832,178	764,594	67,584	8.1%	7.3%	5.6%
1975	849,776	753,830	95,946	11.3%	9.9%	8.5%
March 1975	838,769	744,951	93,818	11.2%	9.2%	8.5%
Jan. 1976	858,785	758,260	100,525	11.7%	9.9%	7.8%
March 1976	860,123	760,629	99,494	11.6%	9.5%	7.5%

IV. INCOME

Income is one measure of the quality of life in any area. However, average income statistics are not very useful in analyzing the situation in this area because of its diversity. Areas of San Diego are very affluent, and this skews the county averages. The bulk of the county resembles Imperial and Riverside Counties, so, therefore, we will examine these counties as representatives of existing poverty.

While San Diego's median family income and per capita income is above the national average income levels, Imperial and Riverside are well below these national indices.

The median family income for Imperial and Riverside is $8,258 and $8,992, respectively. This places Imperial $1,328 and Riverside $594 below the national average of $9,596. These statistics are as of 1969 and most projections show that there has been a drop-off since.

Both counties have greater percentages of people below $7,000 per family than the nation and a lower incidence of income above this level. Both suffer a rate 10% greater than the nation for families earning less than $3,000. There is a lower rate of persons earning more than $15,000, and a lower rate of families earning more than $25,000, than the national averages.

In short, the distribution of income in this area does not compare favorably with the rest of the nation. The 16.2% rate of living below the national low-income standard in Imperial is 51% higher than the national average of 10.2%.

To compound this already critical situation, the U.S. Department of Commerce's *Over Projection of Economic Activity in the U.S.*, shows that all three of these counties will fall farther behind the nation in the coming years.

The region as a whole has gone from a low of 6.4% in 1973 to a high of 11.7% in January of this year. This has been from 1.5% to 4.1% higher than the national average.

The income for Spanish surnamed people in all three counties is significantly lower than for the population in general in each particular county. In Riverside County, the income for Spanish surnamed families is $7,490 compared to the county median of $8,992. In San Diego it is only $6,676 for Spanish surnamed people as opposed to $10,129 for all families in the county. In Imperial County the median family income for Spanish surnamed families is $6,591, compared to the $8,258 for all families. The percentage of the total number of families with Spanish surnamed ranges from 12.8% in San Diego to 46.0% in Imperial County with Riverside having 17.3%.

	Families	Income in 1969														
		Families with income						Median family income			Families below-		Persons below low-income level			
	Total	% Less than $3,000	% $3,000 to $4,999	% $5,000 to $6,999	% $10,000 to $14,999	% $15,000 to $24,999	% $25,000 and up	All Families ($)	White Families ($)	Black Families ($)	% Low-income level	% Below 125% of low-income level	Total	% With related children under 18 years old	% 65 years old and older	Per capita money income
United States	51,168,599	10.3	10.0	11.9	26.6	16.0	4.6	9,586	9,957	6,063	10.7	15.0	27,057,462	38.4	19.3	3,119
California	5,001,255	3.1	8.7	10.2	28.0	20.6	6.1	10,729	10,966	7,482	8.4	11.9	2,148,390	38.5	14.5	3,614
Region	462,422	9.4	10.6	12.0	26.8	17.1	4.7	9,490	9,934	7,064	9.5	136	211,928	39.8	143	3,270
Imperial	17,261	11.5	13.9	15.3	22.9	12.2	3.4	8,258	8,469	5.069	16.2	22.4	14,812	50.3	8.9	2,451
San Diego	326,707	8.5	9.6	11.6	27.7	18.2	4.9	10,129	10,304	7,366	8.6	12.3	136,330	39.7	12.6	3.381
Riverside	118,454	11.4	12.7	12.6	24.7	14.6	4.2	8,992	9,126	6,524	10.9	16.0	60,786	37.5	19.3	3,083

INCOME IN 1969

	Families	Median Family Income		Spanish Surname as % of pop.
	Total	All Families	Spanish Surnamed	
Riverside	118,454	8,892	7,490	17.3%
Imperial	17,261	8,258	6,591	46.0%
San Diego	326,707	10,129	6,676	12.8%
California	--	10,729	8,917	15.5%
United States	--	9,586	7,348	4.6%

V. WELFARE

Welfare is another indicator of the relative well-being of the area. To measure this, we will use the amount of food stamps distributed and the level of AFDC payments made in the area.

The total amount of food stamps distributed in the three-county region in February 1976 was $5,076,876, although the bonus value — the amount of the subsidy — was $2,141,199. This represents a very significant increase over the previous year at 32.0%. In comparison, the increase occuring statewide was only 15.8%. The statistics also show a significant increase in the number of people who qualify for the program and a relative decrease in the well-being of those people.

AFDC payments, Aid to Families with Dependent Children, also increased substantially. From February 1975 to February 1976, the rise in the amount of payments was 20.5% as compared to the 16.7% for the state. This program involves 131,448 persons in the region.

The increases in these two programs of 32.0% for food stamps and 20.5% for AFDC payments, indicate that there is a definite decrease in the overall welfare of the area.

FOOD STAMPS

	Total Value			Bonus Value		
	Feb. '75	Feb. '76	% Change	Feb. '75		
Imperial	$ 203,744	$ 206,480	1.3%	$ 106,801	$ 94,658	-6.7%
Riverside	$ 1,501,301	$ 1,709,476	13.9%	$ 621,096	$ 735,241	18.4%
San Diego	$ 2,214,701	$ 3,160,920	42.7%	$ 895,171	$ 1,306,300	50.0%
Region	$ 3,919,746	$ 5,076,876	28.5%	$ 1,622,068	$ 2,141,199	32.0%
California	$54,570,301	$60,317,350	10.5%	$22,358,774	$25,888,516	15.8%

AFDC Payments

	Total Persons			Aid Payments		
	Feb. '75	Feb. '76	% Change	Feb. '75	Feb. '76	% Change
Imperial	5,482	5,521	1.0%	$ 355,731	$ 411,228	15.6%
Riverside	39,613	41,623	5.1%	$ 2,757,449	$ 3,393,793	23.1%
San Diego	79,193	84,304	6.5%	$ 5,922,123	$ 7,078,487	19.5%
Region	124,228	131,448	5.8%	$ 9,035,303	$ 10,883,508	20.5%
California	1,401,361	1,459,771	4.2%	$109,758,966	$128,141,961	16.7%

VI. HOUSING

Quality and availability of housing play an important role in the economic and social well-being of an area and of its peoples. The relationship is especially evident in the California-Mexican border region composed of Imperial, Riverside, and San Diego Counties.

The situation that exists as regards housing in these three counties is emphasized (to the detriment of the area) when compared to state and national norms.

For example, one might examine the situation regarding the number of persons per occupied unit. The national and state norms are 2.7 and 2.5 persons, respectively, while comparable figures for Spanish language and surname residents in Imperial (46% of the population), Riverside (17.3%), and San Diego (12.8% are 4.3, 4.0 and 3.5, respectively.

Further, when one examines the degree of overcrowding (overcrowding being defined as 1.01 persons or more per room) the national and state figures are 8.1% and 8.0%, while overall crowding in Riverside County is 8.9% and in Imperial County is 19.4%, which is more than double comparable state and national figures.

When figures for overcrowding of persons of Spanish language and surname are studied in the California-Mexican border region one finds figures of 22.4% for San Diego County, 31.8% for Riverside County, and an incredible figure of 40.3% for Imperial County.

Additional Census Bureau data reveal that an extremely high percentage of family income is spent for housing, as compared to the state and nation.

Another indicator of the quality of housing is the number of units with inadequate plumbing. The 3-county region has some 24,792 units with inadequate plumbing. Of the three counties, Imperial has the largest percentage of its housing with inadequate plumbing — 12.5% — significantly above the national average of 5.5%.

HOUSING (1)	United States	California	Imperial	Riverside	San Diego
Total housing units	68,679,030	6,996,990	23,401	169,757	450,798
Year-round housing units	67,656,566	6,976,744	23,202	168,242	450,533
Median number of rooms	5.0	4.7	4.6	4.7	4.7
Spanish surname: occupied year-round housing units	2,293,141	591,707	7,463	17,978	42,390
Median number of rooms	4.4	4.4	4.5	4.6	4.6

Sources: Bureau of the Census: 1970 Census of Housing: Housing characteristics for States, Cities, and Counties: California
Bureau of the Census: 1970 Census of population: Subject Report: Persons of Spanish Origin [PC(2)-1c].

HOUSING (2a)					
Occupied housing units:	63,449,747	6,573,861	21,030	150,504	423,513
Median number of persons	2.7	2.5	3.0	2.4	2.5
Owner occupied (%)	62.9%	54.9%	57.8%	63.9%	56.4%
Owner median value ($)	$17,000	$23,100	$13,800	$18,900	$22,200
Renter occupied (%)	37.1%	45.1%	42.2%	36.1%	43.6%
Renter median contract rent ($)	$89.	$113.	$71.	$92.	$117.

Sources: Bureau of the Census: 1970 Census of Housing, Housing characteristics for states, cities, & Counties: California

HOUSING (2b)

Spanish language and surname: occupied housing units	2,293,141	591,707	7,463	17,978	42,390
Median number of persons	3.6	3.6	4.3	4.0	3.5
Owner occupied (%)	43.7%	44.0%	50.5%	52.1%	51.3%
Owner median value ($)	$13,700	$18,800	$11,700	$15,700	$19,600
Renter occupied (%)	56.3%	56.0%	49.5%	47.9%	48.7%
Renter median contract rent ($)	$83.	$89.	$65.	$76.	$101.

Sources: 1970 Census of Housing Characteristics for States, Cities and Counties: California Bureau of the Census: 1970 Census of Population: Subject Report: Persons of Spanish Origin [PC(2)-1c].

HOUSING (3a)

Crowded housing units:	3,802,485	365,523	2,498	9,095	23,108
1.01-1.50 persons per room	3,802,485	365,523	2,498	9,095	23,108
As % of occupied housing unit	5.9%	5.6%	11.9%	6.0%	5.5%
1.51+ persons per room	1,408,416	156,429	1,578	4,300	7,207
As % of occupied housing unit	2.2%	2.4%	7.5%	2.9%	1.7%
Total 1.01+ persons per room	5,210,874	52,952	4,076	13,395	30,315
Total % of occupied housing units	8.1%	8.0%	19.4%	8.9%	7.2%

Source: Census of Housing

HOUSING (3b)	United States	Calif.	Im-perial	River-side	San Diego
Spanish language and surname: overcrowded housing units:					
1.01-1.50 persons per room	370,780	98,955	1,720	3,218	6,145
As % of occupied housing u.	16.2%	16.7%	23.0%	17.9%	14.5%
1.51+ persons per room	218,555	161,557	1,290	2,499	3,366
As % of occupied housing u.	9.2%	10.4%	17.3%	13.9%	7.9% 7.9%
Total 1.01+ persons per room	589,335	60,512	3,012	5,717	9,511
Total % of occupied housing u.	25.4%	27.1%	40.3%	31.8%	22.4%

Source: Census of Housing
Census of Population: Spanish Origin

1970 HOUSING

	Imperial	Riverside	San Diego	Region	California	United States
Total Housing Units	23,206	168,364	449,738	641,308	6,976,744	---
No. of Units with Inadequate Plumbing	2,896	6,794	15,102	24,792	287,352	---
% of Total	12.5%	4.0%	3.4%	3.9%	4.1%	5.5%

Source: 1970 Census of Housing: Housing Characteristics for States Cities, and Counties: California

VII. HEALTH

The availability of adequate health care is an important variable in the overall analysis of the standard of living in a particular area. San Diego, Riverside and Imperial Counties are facing critical shortages in the number of physicians available to serve the general populace.

Both the Federal Government and the State of California have established minimum desirable levels of physician-patient ratios. The Federal Government, in Region IX, which takes in all of California, has declared the entire county of Imperial to be a critical health manpower shortage area. They have also declared large parts of San Diego, including Juman and Mountain Empire CCDs, and Valley Center, Parma Valley, Palomar-Laguna, and Ramona CCDs to be critical health manpower shortage areas. Riverside County health manpower shortage area includes the Idyllwild CCD and the Morango Indian Reservation.

The State of California uses four criteria to determine whether a county falls into a critical shortage area. Using these criteria, all of Imperial County and those parts of San Diego and Imperial County discussed above fall into the catagory of critical shortage areas.

All counties fall below the statewide average of 60.5 primacy care physicians per 100,000 population, while Riverside's is 50.8 and Imperial County's ratio was only 21.1.

CALIFORNIA PRIMARY CARE PHYSICIANS 1/PROVIDING PATIENT CARE BY SPECIALITY BY COUNTY RATIO PER 1,000 POPULATION 2/FOR 1972 (*Denotes those counties with less than ideal ratio per 1,000 population)

County	General/Family Practice/1,000 pop.	Pediatrics Per 1,000 pop.	OB/GYN Per 1,000 pop.	Internal Medicine Per 1,000 pop.
Ideal	1:2,000	1:10,000	1:11,000	1:5,000
Imperial	5,027*	75,400*	25,133*	10,771*
Riverside	2,899*	15,750*	12,434*	7,500*
San Diego	2,741*	8,809	8,096	4,638

1/ Active Non-Federal Physicians practicing in California December 31, 1972. Primary Care defined as General/Family Practice, Pediatrics, OB/GYN, and Internal Medicine.

2/* County population based on State of California, Department of Finance estimates for December 31, 1972

Note: The date used in this table differs form that used in Tables 2 and 3. This date is presented to show the relative range of primary care physicians distribution by county in California.

Source: California State Department of Health, Physician Manpower: An Approach to Estimation of Need in California, September 1973.

NUMBER AND RATIO TO 100,000 POPULATION OF PRIMARY CARE PHYSICIANS IN CALIFORNIA PROVIDING PATIENT CARE BY COUNTIES FOR 1973

County	Number of Active Non-Federal Primary Care Physicians 1/	Primary Care Physician/ Population Ratio (per 100,000 pop.)2/	Above State Avg. Below State Avg.
Imperial	17	21.1	Below
Riverside	258	50.8	Below
San Diego	829	55.2	Below
Total California	12,623	60.5	

1/ Primary Care Physicians: Pediatrics, Internal Medicine, General or Family Practice, OB/GYN for December 31, 1973.

2/ Population for July 1, 1973, estimate California Department of Finance.

Source: American Medical Association, Distribution of Physicians in United States, December 31, 1973

NUMBER AND RATIO TO 100,000 POPULATION OF PHYSICIANS PROVIDING PATIENT CARE TOTAL AND BY SELECTED SPECIALITY IN CALIFORNIA BY COUNTY FOR 1973

County	Population 1/	Number of Non-Federal Physicians Providing Patient Care 2/	Ratio Physicians Per 100,000 Population	Number of Non-Federal Primary Care Physicians 3/4/	Ratio Primary Care Physicians Per 100,000 Population
Imperial	80,606	48	59.6	7	21.1
Riverside	507,800	569	112.1	258	50.8
San Diego	1,502,600	2,302	153.2	829	55.2
Total California	10,848,520	34,605	163.4	12,623	60.5

1/ State of California Department of Finance Population estimates July 1, 1973.

2/ Active Non-Federal Physicians, December 31, 1973.

3/ Active Non-Federal Primary Care Physicians, December 31, 1973.

4/ Primary Care Physicians: GP and Family Medicine, OB/GYN, Pediatrics, Internal Medicine.

Source: American Medical Association: Center for Health Services Research and Development, Distribution of Physicians in the United States, 1973 Table 12.

91-139 O - 77 - 17

VIII. EDUCATION

The quality of education is difficult to measure. However, we can get a general impression of the areas' educational systems by looking at the number of school years completed.

Taking the region as a whole, the levels of educational attainment are comparable to state and national levels. (See table, Years of School Completed.) Yet, Imperial County is indicative of the lack of quality education received by the people in rural areas of the region. More than 28% of all people 25 years of age or older living in Imperial County have completed less than eight years of school, compared to only 12% nationally. Only 43.1% have graduated from high school (61.2% nationally), and only 7.3% have completed four years of college (13.3 nationally).
(61.2% nationally), and only 7.3% have completed four years of college (13.3 nationally).

There are areas within San Diego County whose people have obtained less education than do most people. Looking at the region with the city of San Diego proper excluded (which still includes many well-off suburban areas), the rate at which students finish high school and go on to complete at least four years of college is 13% below the national rate. Riverside County falls between the other two. In all three counties, the levels of achievement of those with Spanish surnames are stikingly below the average. This is a particular concern of this region as the percentage of Spanish surnamed adults vary from 10% in San Diego County to 37% in Imperial, and the percentages for school-age children are higher.

The fact is that more people quit school and look for work earlier, and yet the jobs are often not there (see section on unemployment).

EDUCATION (1a)	United States	Calif.	Im-perial	River-side	San Diego
Persons 25 years old and over	109,899,359	10,875,983	36,251	254,985	689,279
% of population completing:					
Less than 5 yrs. elem. sch.	5.5%	4.3%	15.7%	5.4%	3.0%
Less than 1 yr. high sch.	13.4%	19.8%	24.1%	23.2%	16.5%
4 yrs. of high sch. or more	52.3%	62.6%	43.1%	58.4%	65.3%
4 yrs. of college or more	10.7%	13.4%	7.3%	10.6%	14.0%
Median school yrs. completed	12.1	12.4	10.8	12.3	12.4

Source: County and City Data Book
Statistical Abstract of the United States: 1975
General Social and Economic Characteristics: California

EDUCATION (1b)	United States	Calif.	Im-perial	River-side	San Diego
Spanish language or surname 25 years old and over	3,946,434	1,018,108	13,365	31,537	72,186
Percentage completing:					
Less than 5 yrs. of elem. sch.	19.5%	18.3%	33.4%	22.8%	12.0%
Less than 1 yr. of high sch.	59.6%	46.1%	64.9%	49.9%	34.3%
4 yrs. of high school or more	32.1%	33.8%	23.0%	31.7%	45.3%
4 yrs. of college or more	6.5%	3.7%	2.3%	3.6%	6.8%
Median school years completed	9.1	9.6	7.3	9.1	11.2

Source: General Social and Economic Characteristics: California
Subject Report: Persons of Spanish Origin

IX. ADVERSE AFFECTS OF CHANGING INDUSTRIAL TECHNOLOGY

One of the more obvious changes in industrial technology in San Diego and Imperial counties involves the growth of mechanization and its subsequent effect upon the farming industry.

In examining the national picture, big farms are still emerging as United States agriculture continues its evolution. The trend to fewer and larger farms has been going on since the mid-1930's when one of every four Americans lived on a farm. Today one person in 25 resides there.

Today there are about 2.8 million farms, averaging 385 acres each on a national basis. In 1870, when only 408 million acres were in farms there were about the same number of units — 2.7 million — and the average size was 150 acres.

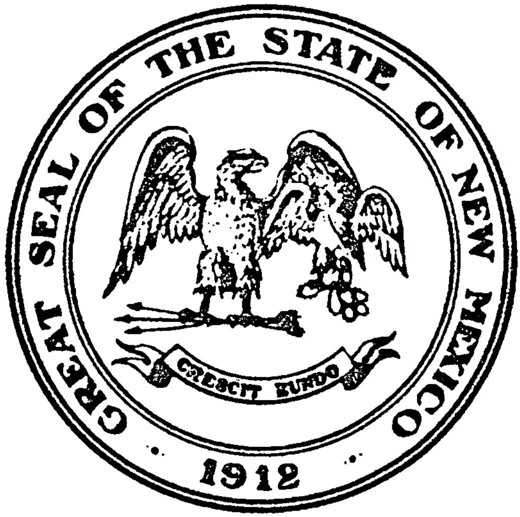
California's multi-billion dolalr agricultural industry had its beginning in San Diego County over 200 years ago when the Spanish padres founded the San Diego Mission in 1769. Since that time agriculture has matured into a highly sophisticated supplier of speciality crops which are exported throughout the nation and the world. The effect of the advent of mechanization in the Imperial, Riverside and San Diego County area has been dramatic. While the production and value of crops in the region has generally increased, there has been a drop in the size of the agricultural labor force.

For example, in Imperial County, in the years prior to 1960, agriculture was responsible for appoximately 14,750 jobs. In the past 14 years, from 1960 to 1974, agricultural employment in Imperial County has dropped by 48%. The annual average of jobs in agriculture is 6,500 as of 1974. If the trend continues, a further drop in the agricultural work force may be expected.

Another unusual situation exists in Imperial, Riverside and San Diego Counties as to the agricultural work force. There are approximately 20 to 25 thousand green card workers in Mexicali, Mexico, who do work, and are eligible to work in the United States. As of January, 1975, there were approximately 14,000 green-carders crossing daily at Calexico, California, and working in the Imperial Valley and Palo Verde Valley.

While very little data exists at this time as to the effect future trends in the area of farm mechanization will have on unemployment, it would appear likely that it will continue to have an adverse affect upon the size of the labor force. This is significant for San Diego, Riverside and Imperial counties, since agricultural production is such a key part of their economy and livelihood.

APPENDIX C.



STATE OF NEW MEXICO

Jerry Apodaca, Governor

NEW MEXICO

A SOCIOECONOMIC OVERVIEW OF THE STATE'S BORDER REGION

New Mexico State Planning Office
June 11, 1976

TABLE OF CONTENTS

INTRODUCTION

According to most economic indicators, New Mexico is one of the poorest states in the nation. It ranks forty-eighth in per capita income and housing needs, and lags substantially behind the rest of the country in primary medical care resources. Compared to most other states, New Mexico contains vast rural areas, most of which are isolated by poor roads and primitive communications. Income tends to be unevenly distributed, and a great deal of the state's economic activity attracts unskilled or semi-skilled low-wage labor. In addition, the tax base is substantially restricted by the existence of large federal land holdings. Hence, while the state is rich in mineral wealth and scenic beauty, it remains at the margin of the national economic mainstream.

Among those areas of the state which can be singled out as particularly underdeveloped are substantial portions of those counties — Hidalgo, Luna, Otero, Dona Ana and Grant — which comprise the region adjacent to the Mexican border. With very few and tenuous exceptions, such as the cities of Las Cruces and Deming, most of the region suffers from acute economic stagnation. While some of the reasons for this condition may be attributed to vagaries in the state and national economies, proximity to the border with Mexico has contributed substantially to an already weak economy.

Conventional wisdom dictates that the influx of illegal aliens — or undocumented workers — is one of the major depressants to the economy. While many farmers in the area might argue the point, the fact remains that undocumented workers do tend to permit the forces of the market to hold down wages. This, in turn, has significant ripple effects which are by now history. But there is much more to the general problem of a stagnant border economy than the presence of undocumented workers. As will be seen in this report, a shifting economy has resulted in severe labor dislocations, a weakened tax base, and out-migration. Then, too, the classic dilemma of the monoculture is endemic to most parts of the region. In general, a pervasive economic underdevelopment exists on both sides of the frontier.

What follows is a presentation of an overview of the economy of the New Mexico border region, set in the context of the area's historic and cultural development. While the principal thrust of this paper is to lay the groundwork jointly with New Mexico's sister states along the international boundary to form a Regional Border Commission, it may be appropriate to underscore here an important caveat. The major purpose of the proposed Commission will be to study and engage actively in socioeconomic development in the border region. As such, great care should be taken not to apply conventional development models to an area which is characterized by a unique set of variables. Substantial evidence exists to convince even the most skeptical observer that new concepts and practices of development will have to be devised to meet the particular conditions of the region.

CULTURE AND HISTORY

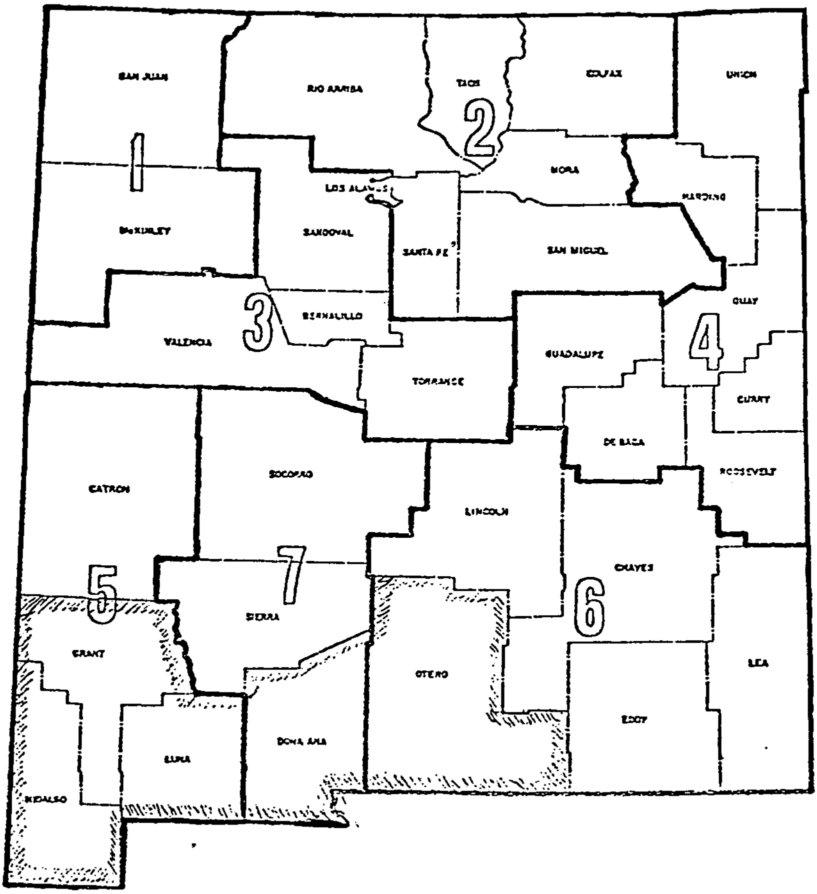
The border region of New Mexico shares much of a common history and culture with Arizonà, California, and Texas. The area can trace its human origins back to several millenia preceeding Christ. Numerous Indian tribes and pueblo cultures existed in what is present day New Mexico since the earliest days of documented human history. And today, significant Indian cultures still may be found in all parts of New Mexico.

With the exception of Texas, New Mexico and the other states along the international frontier were ceded to the U. S. after the signing in 1848 of the Guadalupe-Hidalgo Treaty, which signalled the end to the war between Mexico and this nation. Although an arbitrary political line was drawn between present-day Mexico and New Mexico, Arizona, and California, the forces of culture and history continue successfully to ignore the demarcation line. The customs, values, foods, and language of the border region are an amalgam of Indian, Mexican, Spanish and Anglo cultures, defying precise classification into a convenient culturally homogeneous niche. As may well be expected, the uniqueness of the regional culture has produced its own problems — as well as blessings.

It is folly to try to understand the economy of the area without taking into account the historic forces which have helped to shape existing social, political, and economic institutions and relationships. Apart from the international dimension of the economic problems of the region, it is vital to have an appreciation of the particular human conditions which dominate and determine values and attitudes. The bonds which unite the people on both sides of the border are strong and deeply rooted in centuries of a common history and traditions.

NEW MEXICO BORDER COUNTIES

(See Shaded Area)



C.5

COUNTY PROFILE

DONA ANA COUNTY

Dona Ana ranked second in size of population of the 32 counties in the state, according to the 1970 census. Average population density as of that year was 18.3 persons per square mile.

CHARACTERISTICS:

Land Tenure

Federal	47%
Indian	0
State	12
Private	41
N = 3,804 Square Miles	100%

National Forests

None

Population

Total Population, 1974 78,000

Population Components, 1970

Urban	66.2%
Rural	33.8
N = 69,773	100.0%

Non-white	3.3%
Spanish-surname	50.8
Anglo	45.9
N = 69,773	100.0%

Economics

Employment:

Number of Persons Employed by Economic Activity, 1972

Activity	Number of Persons
Total Non-agriculture Wage and Salary	23,416
Manufacturing	1,537
Transportation, Communications and Public Utilities	1,439
Wholesale and Retail Trade	4,295
Finance, Insurance, and Real Estate	749
Government	11,149

Unemployment Rate = 6.6% as of 1975

Income:

Per Capita Income	$3,640	(U.S. = $5,448)
Median Family Income	$7,395	
Median Income of Spanish-surnamed	$5,587	
Percentage of All Unrelated Individuals with Income Under Poverty Level	56.4%	

Housing

Median Value of Owner-occupied Rural Housing	$ 8,000
Median Value of All Owner-occupied Housing	$13,400

Agriculture

Number of Farms by Year

1964	869
1970	768
1976	701

Cattle Population: 32,000 as of 1974; Assessed Value = $5,920,000

Crop Value (in thousands)

Cotton and Cottonseed	14,692,5
Hay	$ 3,208,5
Sorghum	$ 334,9
Wheat	$ 59,7

Health

Number of Hospitals	1
Number of Physicians	58
Population per Physician	1,345

Dona Ana County is one of the fastest growing counties in the state and contains the state's second largest city, Las Cruces. Most of the growth is concentrated in Las Cruces and the urban corridor between Las Cruces and El Paso, which has become an environmental nightmare due mainly to problems with wastewater, pollution, and water supply. Population pressure on a fragile environment continues to be a big problem in the corridor area.

Dona Ana is blessed with the rich, fertile Rincon and Mesilla Valley lands which accounted for over one-fifth of New Mexico's crop value in 1974. While agriculture is highly important, the government surpasses all other sectors for employment by accounting directly for over 40% of the jobs. This is mainly due to the close proximity of White Sands Missile Range to Las Cruces. Ironically, the greatest economic debility in the county is an increasing dependence upon the Federal Government. The stability of that "industry" is beyond the control of the community.

A major flaw in the economic structure of Dona Ana County lies in the sharp contrast between a growing Las Cruces and the more prosperous young communities, on one hand, and the economically depressed villages such as Rincon, Dona Ana, Vado, and Berino, on the other. Only a few miles separate the new high-rise office building, shopping centers, and modern homes of Las Cruces from the squalor of poverty along the Rio Grande, south to the Texas and Mexican border.

Dona Ana is by far the wealthiest of the border counties in New Mexico. However, the wealth is far from evenly dispersed and severe pockets of poverty are quite common. The county has the most direct input with Mexico due to the proximity of Cuidad Juarez. It has experienced migration from Texas and Mexico which, in turn, resulted in large reserves of unskilled and semiskilled labor. This tends to reduce average earnings, but does tend to attract industries which rely on relatively low-cost labor markets.

Las Cruces is a natural location for twin plant industries — which are currently struggling for survival because of increases in Mexican minimum wage rates. Several firms have indicated an interest in the area from Las Cruces south to the border. Should a stable twin plant policy develop from new Mexican and U. S. administrations, it would likely result in a substantial economic boost to the county.

COUNTY PROFILE

GRANT COUNTY

Grant ranks fourteenth in land size of the 32 counties in the state and ranked thirteenth in size of population, according to the 1970 census. Average population density as of that year was 5.5 persons per square mile.

CHARACTERISTICS:

Land Tenure

Federal	50%
Indian	1
State	14
Private	35
N = 3,970 Square Miles	100%

National Forests

Gila National Forest	1,151,669 acres
Black Range Primitive Area	53,501 acres

Population

Total Population, 1974 — 23,400

Population Components, 1970

Urban	48.4%
Rural	51.6
N = 22,030	100.0%

Non-white	1.7%
Spanish-surname	56.1
Anglo	42.2
N = 22,030	100.0%

Economics

Employment:

Number of Persons Employed by Economic Activity, 1972

Activity	Number of Persons
Total-Non-agriculture wage and Salary	7,351
Manufacturing	415
Mining	2,575
Transportation, Communications, and Public Utilities	256
Wholesale and Retail Trade	1,104
Finance, Insurance, and Real Estate	167
Government	1,821

Unemployment Rate = 5.6 percent as of 1975

Income:

Per Capita Income	$4,432	(U.S. = $5,448)
Median Family Income	$7,898	(U.S. = $9,590)
Median Income of Spanish-surnamed	$7,183	
Percentage of All Unrelated Individuals with Income Under Poverty Level	60.4%	

Housing

Median Value of Owner-occupied Rural Housing	$ 8,700
Median Value of All Owner-occupied Housing	$10,100

Agriculture

Number of Farms by Year

1964	239
1970	245
1976	248

Cattle Population: 56,000 as of 1974; Assessed Value = $10,360,000

Crop Value (in thousands)

Cotton and Cottonseed	$ - -
Hay	$174,4
Sorghum	$ 65,4
Wheat	$ 11,9

Health

Number of Hospitals	2
Number of Physicians	19
Population per Physician	1,232

For more than 150 years the economy of Grant County has been dominated by copper. This industry has accounted for most of the county's employment and revenue. The mining of silver, gold, lead, zinc, and molybdenum has played a lesser role in the county's economy. The combined current value of production of these minerals is less than one-fifth that of copper produced in the county. The economy continues to be closely related to the copper industry which has been suffering from significant declines in demand and price over the past few years. The subsequent economic impact is severe as mining and milling of copper directly account for nearly half of the wages in the county, not to mention spinoff effects.

Tourism exists but needs further promotion. Much of the terrain is extremely mountainous and of limited agricultural use. Agriculture continues to decline (26.42% from 1960-1972). The high wages paid by the mining industry is a factor, but more important is the continued transfer of water, a scarce commodity in this region, from the agricultural sector to the mining industry. To complicate matters, the copper industry has had problems meeting state sulfur emission standards. Should this cause a cutback in production, forcing layoffs, the current economic base could not absorb the unemployed. Diversity of the economy is a desperate need.

The county does have adequate educational facilities (Western New Mexico University), but needs to develop vocational training schools for technically-oriented students. Future tourism in the Gila National Forest could have a significant impact on the area, as well as spinoff from the intensive tourist trade in nearby Cd. Juarez. The mining industry alone cannot be relied on to maintain stability and bring continued economic growth to the county. As is generally the case in the entire New Mexico border region, dependence on one or two major economic activities has limited development and growth. Once again, the need for diversification becomes readily apparent.

COUNTY PROFILE

HIDALGO COUNTY

Hidalgo ranks nineteenth in land size of the 32 counties in the state and ranked twenty-eighth in size of population, according to the 1970 census. The population density as of that year was 1.4 inhabitants per square mile.

CHARACTERISTICS:

Land Tenure

Federal	40 %
Indian	.5
State	16
Private	43.5
N = 3,447 Square Miles	100%

National Forests

Coronado National Forest	69,567 acres
Gila National Forest	7,653 acres

Population

Total Population, 1974 — 5,200

Population Components, 1970

Urban	72.4%
Rural	27.6
N = 4,734	100.0%

Non-white	1.4%
Spanish-surname	58.8
Anglo	39.8
N = 4,734	100.0%

91-139 O - 77 - 18

Economics

Employment:Number of Persons Employed by Economic Activity, 1972

Activity	Number of Persons
Total Non-agriculture Wage and Salary	1,597
Manufacturing and Mining	413
Transportation, Communications, and Public Utilities	68
Wholesale and Retail Trade	401
Finance, Insurance, and Real Estate	33
Government	345

Unemployment Rate = 4.5 percent as of 1975

Income:

Per Capita Income	$4,805	(U.S. = $5,448)
Median Family Income	$6,568	(U.S. = $9,590)
Median Income of Spanish-surnamed	$6,092	(U.S. = $9,590)
Percentage of All Unrelated Individuals with Income Under Poverty Level	66%	(U.S. = $9,590)

Housing

Median Value of Owner-occupied Rural Housing	$5,000
Median Value of All Owner-occupied Housing	$8,100

Agriculture

Number of Farms by Year

1964	173
1970	151
1976	143

Cattle Population: 39,000 as of 1974; Assessed Value = $7,215,000

Crop Value (in thousands)

Cotton and Cotton seed	$1,726,8
Hay	299,9
Sorghum	2,171,6
Wheat	20,4

Health

Number of Hospitals	1
Number of Physicians	1
Population per physician	5,200

For many years, Hidalgo County has benefitted from a relatively prosperous agrarian economy. However, as is true of the entire New Mexico border region, agriculture has recently accounted for a declining proportion of the county's total income and employment. Indeed, agricultural employment has shown a steady decrease from 1963 to the present, registering a drop from 38% to 20%. Arid climatic conditions have made it extremely difficult for the small farmer to survive, as may be seen by the decrease in the amount of farms in the county.

Although increases in tourism and government have partially alleviated the effects of this trend, total county employment still fell from a high of over 2,000 persons in 1964 to 1,597 in 1974. Moreover, markets, due to sparse population densities, have inhibited greater potential for economic diversification.

Located within the county is one of New Mexico's two international ports of entry, Antelope Wells. While only a cattle crossing at present, recent settlements immediately south of the border do have the potential to increase and diversify the commercial traffic utilizing the crossing.

Limited development of the tourist trade has occurred due to the location of the City of Lordsburg on transcontinental Interstate Highway 10. The importance of tourism is reflected in the trade, services and transportation sectors, which accounted for nearly one-half of the employment in the county in 1970. However, tourism alone cannot provide the necessary viable economic base.

COUNTY PROFILE

LUNA COUNTY

Luna ranked twentieth in size of population of the 32 counties, according to the 1970 census. Population density as of that year was 4.0 inhabitants per square mile.

CHARACTERISTICS:

Land Tenure

Federal	42%
Indian	0
State	28
Private	30
N = 2,957 Square Miles	100%

Population

Total Population, 1974 14,200

Population Components, 1970

Urban	71.3%
Rural	28.7%
N = 11,706	100.0%

Non-white	2.6%
Spanish-surname	46.5%
Anglo	50.9%
N = 11,706	100.0%

Economics

Employment:

Number of Persons Employed by Economic Activity, 1972

Activity	Number of Persons
Total Non-agriculture Wage and Salary	2,941
Manufacturing and Mining	368
Transportation, Communications and Public Utilities	279
Wholesale and Retail Trade	807
Finance, Insurance and Real Estate	135
Government	730

Unemployment Rate = 7.5% as of 1975

Income:

Per Capita Income	$3,336 (U.S. = $5,448)
Median Family Income	$6,472
Median Income of Spanish-surnamed	$5,471
Percentage of All Unrelated Individuals with Income Under Poverty Level	83.0%

Housing

Median Value of Owner-Occupied Rural Housing	$10,500
Median Value of All Owner-Occupied Housing	$10,600

Agriculture

Number of Farms by Year

1964	260
1970	239
1976	230

Cattle Population: 37,000 as of 1974; Assessed Value = $6,845,000

Crop Value (in thousands)

Cotton and Cottonseed	$5,458,8
Hay	$ 377,6
Sorghum	$4,377,3
Wheat	$ 50,3

Health

Number of Hospitals 1
Number of Physicians 6
Population per Physician 2,367

As has been revealed elsewhere in the region, the major economic activity, agriculture, provides fewer and fewer employment opportunities. In addition, cotton, the county's principal crop, has significantly declined in production in recent years. Like Hidalgo County, Luna is in the process of transition to a more diversified economic base. Largely through its own efforts, pioneered by the City of Deming, the county has developed a significant manufacturing sector and has capitalized on its natural climatic attractiveness for tourism activities and as a retirement community.

Luna is the poorest county on the New Mexico border region, at least as measured by income level. Most individuals are employed in agriculture, retail sales, and restaurant and motel services — traditionally low-paying activities.

In addition to a decline in cotton production, drouth has hindered the cattle industry to a certain extent in the past few years. By way of compensation, the small but viable manufacturing center could develop stronger economic linkage factors if the current trend of drawing retirees and the promotion of Deming as a service center for the Mexican agriculture communities from Palomas to Casas Grandes is continued. Development of tourism could also help, as Luna County contains New Mexico's only twenty-four-hour port of entry into Mexico. The port, located at Columbus, is the scenic gateway to the colorful State of Chihuahua. Both Columbus and Rodrigo Quevedo have the facilities for exporting and importing cattle from each side of the border.

Finally, the proximity of Deming to the border gives it the potential for excellent small twin plant development. Should the interest in twin plant operations expand, Deming would be an ideal location for such activity.

OTERO COUNTY

Otero ranks second in land size of the 32 counties in the state and ranked ninth in size of population, according to the 1970 census. Average population density as of that year was 6.2 persons per square mile.

CHARACTERISTICS:

Land Tenure

Federal	68%
Indian	11
State	10
Private	11
N = 6638 Square Miles	100%

National Forests

Lincoln National Forest 543,922 acres

Population

Total Population, 1974 42,500

Population Components, 1970

Urban	82.5%
Rural	17.5
N = 41,097	100.0%

Non-White	9.3%
Spanish-surname	23.7
Anglo	66.0
N = 41,097	100.0%

Economics

Employment:

Number of Persons Employed by Economic Activity, 1972

Activity	Number of Persons
Total Non-agriculture Wage and Salary	11,094
Manufacturing	957
Mining	N/A
Transportation, Communications and Public Utilities	664
Wholesale and Retail Trade	1,971
Finance, Insurance & Real Estate	354
Government	4,071

Unemployment Rate = 7.2 percent as of 1975

Income:

Per Capita Income	$3,681	(U.S. = $5,448)
Median Family Income	$8,117	(U.S. = $9,590)
Median Income of Spanish-surnamed	$7,341	
Percentage of All Unrelated Individuals with Income Under Poverty Level	55%	

Housing

Median Value of Owner-Occupied Rural Housing	$ 9,300
Median Value of All Owner-Occupied Housing	$12,700

Agriculture

Number of Farms by Year

1964	246
1970	305
1976	285

Cattle Population: 35,000 as of 1974; Assessed Value = $6,475,000

Crop Value (in thousands)

Cotton and Cottonseed	$578,5
Hay	$494,9
Sorghum	$ 47,0
Wheat	$ 9,8

Health

Number of Hospitals	1
Number of Physicians	18
Population per Physician	2,361

Otero is one of the more prosperous of New Mexico counties. This is largely due to the presence of federal installations at White Sands Missile Range and Holloman Air Force Base. However, as the economy is tied directly to federal defense spending, it has recently been subject to a high degree of economic vulnerability. The population density also reflects the importance of the defense industry as it is concentrated around the base center in Tularosa and Alamogordo. While agriculture and manufacturing have declined in the past two years, the government sector has so far been able to pick up the slack with respect to employment.

SUMMARY

In summary, the New Mexico Counties of Hidalgo, Luna, Grant, Otero, and Dona Ana encompass over 20,816 square miles, containing a population of 163,000 residents. Over 14,857 square miles are owned by the federal and state governments. Per capita income is well below the U.S. average. Housing, health care resources, and vocational education lag behind other areas of the state, as well as national averages. Changes in industrial technology, especially mining operations, have reduced employment opportunities. In addition, cutbacks in defense spending have made it difficult to rely on continued federal defense contracts. Facilities for industrial development are limited in much of the region due to the land tenure pattern. This also has restricted fuller market development.

Investment in public facilities, such as vocational schools, transportation, and water/sewer systems, are needed, but these alone will not produce the necessary level of development. Moreover, the limitations of conventional public investment must be recognized and alternative approaches proposed.

In order for development to occur, it must originate in the private sector of the region's economy. New or export-type industries must be created, and the flow of productive services from the area's basic stock of resources substantially improved. Impediments to expanded private enterprise must be eliminated and replaced by various incentives. Rejuvenation of twin plant industries within economies of scale and concentrated tourism promotion could prove extremely beneficial.

Five major problems can be identified as leading causes for economic stagnation in the region. One, the economy has been dominated by agriculture and mining. Employment displacement from each of these sectors has been considerable. Two, the area is sparsely populated and communication and transportation deficiencies are major barriers to sustained economic growth. Three, the relative lack of water makes the rational establishment of water-use priorities imperative, especially in view of the interlocking nature of water agreements among the four border states. Four, extensive federal land ownership creates special problems and has had a substantial impact on reduced revenue generation. Finally, two major minority groups — Spanish-American and Indian — suffer from high rates of unemployment and low income. The cultural heritage of these groups will call for unique solutions.

APPENDIX A

Income

Families	Income in 1969															
	Families with income -							Median Family Income			.		Persons below low-income level			
	Total	(%) Less than $3,000	(%) $3,000 to $4,999	(%) $5,000 to $6,999	(%) $10,000 to $14,999	(%) $15,000 to $24,999	(%) $25,000 and up	All families ($)	White families ($)	Spanish Surname & Language ($)	(%) Low-income level	(%) 125% of low-income	Total	(%) With related children under 18 years old	(%) 65 years old and up	Per capita money income
U.S.	51,168,599	10.3	10.0	11.9	26.6	16.0	4.6	9586	9957		10.7	15.0	27057482	38.4	19.3	3,119
New Mexico	242,740	15.3	13.3	15.9	21.0	11.8	3.0	7849		6576	18.5	25.0	227,120	14.7	10.9	2,845
Dona Ana	15,607	15.1	16.3	15.8	20.2	11.4	2.0	7395		5587	20.5	28.5	16,280	14.2	7.9	2,932
Grant	5,282	10.2	9.8	19.7	20.8	8.08	2.3	7898		7183	11.9	9.32	3,090	15.0	13.6	3,249
Hidalgo	1,127	18.5	15.6	21.4	14.4	8.6	0	6568		6098	21.7	29.8	1,310	14.6	11.1	2,416
Luna	2,863	17.2	19.3	19.3	19.0	9.2	.10	6472		5471	20.5	29.1	3,033	6.3	11.1	2,807
Otero	9,834	10.7	11.7	18.4	22.8	12.3	1.6	8117		7341	12.3	25.8	5,831	16.6	8.2	3,162

APPENDIX B

Employment

C.25

TABLE
DONA ANA County

EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemployment	Unemployment%	Unemployment% N.M.	Unemployment % U.S.
1970	22,798	21,496	1,302	5.5	5.9	4.9
1971	22,175	23,405	1,770	7.0	6.3	5.9
1972	25,306	23,853	1,453	5.7	5.7	5.8
1973	26,377	24,918	1,459	5.5	5.6	4.9
1974	27,100	25,309	1,791	6.6	6.2	5.6
1975	26,446	24,380	2,066	7.8	7.2	8.5
MARCH 1975						
JAN. 1976						
MARCH 1976						

SOURCE: New Mexico Employment Security Commission.

TABLE
GRANT County

EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemploy-ment	Unemploy-ment %	Unemploy-ment % N.M.	Unemploy-ment % U.S.
1970	7,500	7,097	403	5.4	5.9	4.9
1971	7,971	7,448	523	6.6	6.3	5.9
1972	8,108	7,539	569	7.0	5.7	5.8
1973	7,983	7,550	433	5.4	5.6	4.9
1974	8,439	8,067	372	4.4	6.2	5.6
1975	8,321	7,711	610	7.3	7.2	8.5
MARCH 1975						
JAN. 1976						
MARCH 1976						

TABLE
HIDALGO County

EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemploy-ment	Unemploy-ment %	Unemploy-ment % N.M.	Unemploy-ment % U.S.
1970	1,681	1.623	58	3.5	5.9	4.9
1971	1,749	1,680	69	3.9	6.3	5.9
1972	1,945	1,864	81	4.2	5.7	5.8
1973	2,199	2,103	96	4.4	5.6	4.9
1974	2,895	2,790	105	3.6	6.2	5.6
1975	3,177	3,038	139	4.4	7.2	8.5
MARCH 1975						
JAN. 1976						
MARCH 1976						

TABLE
LUNA County

EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemployment	Unemployment %	Unemployment % N.M.	Unemployment % U.S.
1970	4,131	3.860	271	6.6	5.9	4.9
1971	4,266	3,985	281	6.6	6.3	5.9
1972	4,371	4,063	308	7.0	5.7	5.8
1973	4,402	4,082	320	7.3	5.6	4.9
1974	4,390	4,092	298	6.9	6.2	5.6
1975	4,494	4,117	377	8.4	7.2	8.5
MARCH 1975						
JAN. 1976						
MARCH 1976						

91-139 O - 77 - 19

OTERO County

EMPLOYMENT, UNEMPLOYMENT, LABOR FORCE, AND UNEMPLOYMENT RATES

Year	Labor Force	Employed	Unemployment	Unemployment %	Unemployment % N.M.	Unemployment % U.S.
1970	10,972	10,341	631	5.8	5.9	4.9
1971	10,520	9,729	791	7.5	6.3	5.9
1972	10,717	10,007	710	6.6	5.7	5.8
1973	11,262	10,613	649	5.8	5.6	4.9
1974	11,822	11,071	751	6.4	6.2	5.6
1975	11,523	10,553	970	8.4	7.2	8.6
MARCH 1975						
JAN. 1976						
MARCH 1976						

APPENDIX C

Welfare

C.31

AFDC
Payments

	Total Persons			Aid Payments		
	Nov. '74	Nov. '75	% Change	Nov. '74	Nov. '75	% Change
Grants	23,400			$ 594,356	$ 653,662	10.0
Dona Ana	78,000			1,518,131	1,630,385	7.4
Otero	42,500			501,100	618,750	23.5
Hidalgo	5,200			164,519	182,411	10.9
Luna	14,200			353,438	397,483	12.5

FOOD STAMPS

	Total Value			Bonus Value		
	Nov. '74	Nov. '75	% Change	Nov. '74	Nov. '75	% Change
Otero	1,268,386	1,542,050	21.6	841,543	1,016,505	20.8
Dona Ana	5,568,954	5,918,882	6.3	3,894,459	4,159,873	6.8
Grants	1,314,638	1,321,356	.5	966,190	903,553	- (6.5)
Hidalgo	286,670	327,489	14.2	193,734	223,642	15.4
Luna	745,475	786,187	5.5	484,706	521,730	7.6

APPENDIX D

Education

C.34

YEARS OF SCHOOL COMPLETED — 1970

Persons 25 years old and over

Area	Population (1000)	Percentage of population completing -								High School Graduates	Median School years completed
		Less than 1 year	Elementary			High School		College		
			0-4 years	5-7 years	8 years	1-3 years	4 years	4 years or more		
U.S. 1974	115,005	--	4.4	7.6	10.8	15.9	36.1	13.3	61.2	12.3
New Mexico	489,623	3.3	5.6	9.3	9.4	17.1	30.0	12.7	55.0 *	12.2
Dona Ana	30,264	4.0	10.0	11.2	8.0	12.6	25.0	15.8	54.2	12.2
Grant	10,845	2.9	6.2	12.7	12.2	17.4	25.7	10.6	48.4	11.7
Hidalgo	2,362	4.7	4.6	14.2	15.0	22.6	25.8	6.8	38.9	10.0
Luna	6,069	3.5	8.6	14.2	12.5	21.2	24.8	11.2	40.0	10.1
Otero	18,293	.85	3.4	6.5	8.3	16.2	38.7	18.1	64.9	12.4

* - Indicates percentage of population 25 years old and over completing four years or more of high school, by state.

Source: U.S. Bureau of Census Report - PC(1)-C33 New Mexico

APPENDIX E

Population

C.36

ESTIMATED POPULATION OF NEW MEXICO COUNTIES*
Midyear 1970-1974

county	1970	1971	1972	1973	1974	components of change: % of change	number change	births	deaths	natural increase	net migration
Dona Ana	69,900	71,300	73,600	74,500	78,000	11.6	8,100	6,255	1,665	4,590	3,510
Grant	22,100	22,500	22,600	23,500	23,400	5.9	1,300	1,939	732	1,207	90
Hidalgo	4,700	4,600	4,600	4,700	5,200	10.6	500	462	182	280	220
Luna	11,700	12,200	12,500	13,100	14,200	21.4	2,500	1,079	553	4,143	1,960
Otero	41,300	41,900	41,100	41,500	42,500	2.9	1,200	3,960	926	3,034	-560
State	1,019,100	1,044,800	1,066,000	1,099,260	1,222,500	10.1	103,400	85,501	31,361	54,140	49,260

*Source: Bureau of Business and Economic Research

POPULATION PER SQUARE MILE

County	1960	1970	1974
Dona Ana	15.8	18.3	20.5
Grant	4.7	5.5	5.9
Hidalgo	1.4	1.4	1.5
Luna	3.3	4.0	4.8
Otero	5.6	6.2	6.4
State	7.8	8.4	9.2

APPENDIX F

Health Care

HEALTH CARE

	Population	Hospitals	Capacity	Doctors	Doctor/Patient
Otero	42,500	1	79	18	1/2,361
Hidalgo	5,200	1	25	1	1/5,200
Grant	23,400	2	86	19	1/1,232
Dona Ana	78,000	1	160	58	1/1,345
Luna	14,200	1	52	6	1/2,367
TOTAL	163,300	6	902	102	1/15,098

APPENDIX D.

STATE OF TEXAS

Dolph Briscoe, Governor

STATE OF TEXAS

INTRODUCTION

The severity of the border problem in the State of Texas was vividly illuminated by a recent article in U.S. News and World Report (Oct. 7, 1974):

> A Department of Commerce study recently named the McAllen metropolitan area of Texas the poorest in America. Personal income per capita here is $2,343 annually, against a U.S. average of $4,492 and a statewide figure of $4,045.
>
> About 145 miles to the west, Laredo ranks as the nation's second poorest area. Per capita income: $2,515 a year.
>
> Fifty miles to the east, Brownsville on the coast of the Gulf of Mexico ranks third, with incomes averaging out at $2,607 annually per person.
>
> Things get even worse in rural areas in south Texas, where income per capita in some isolated counties runs as low as $1,300 a year.
>
> . . . .
>
> The labor surplus is reflected in unemployment figures — 15.4 percent at Laredo in June, 10.9 percent in McAllen and 10 percent in Brownsville. And with people fleeing an even worse unemployment rate of 40 percent in northern Mexico, the labor surplus on the U.S. side of the border seems likely to increase.
>
> . . . .
>
> Facts and figures, to some extent, measure the deprivation rampant in south Texas. In Hidalgo County, including McAllen, 34.9 percent of all families in 1971 had incomes ranging between $3,000 and $5,000.
>
> An estimated 45 percent of the population in south Texas is on welfare. Seventy percent of Mexican-American families live in overcrowded conditions, and about 30 percent of the homes lack adequate plumbing.
>
> Many have no access to safe drinking water. Typhus, typhoid, amoebiasis and leprosy are more prevalent in this region than anywhere else in the U.S.

DOCUMENTATION

Documentation of compliance with eligibility criteria follows:

THE RATE OF UNEMPLOYMENT IS SUBSTANTIALLY ABOVE THE NATIONAL RATE

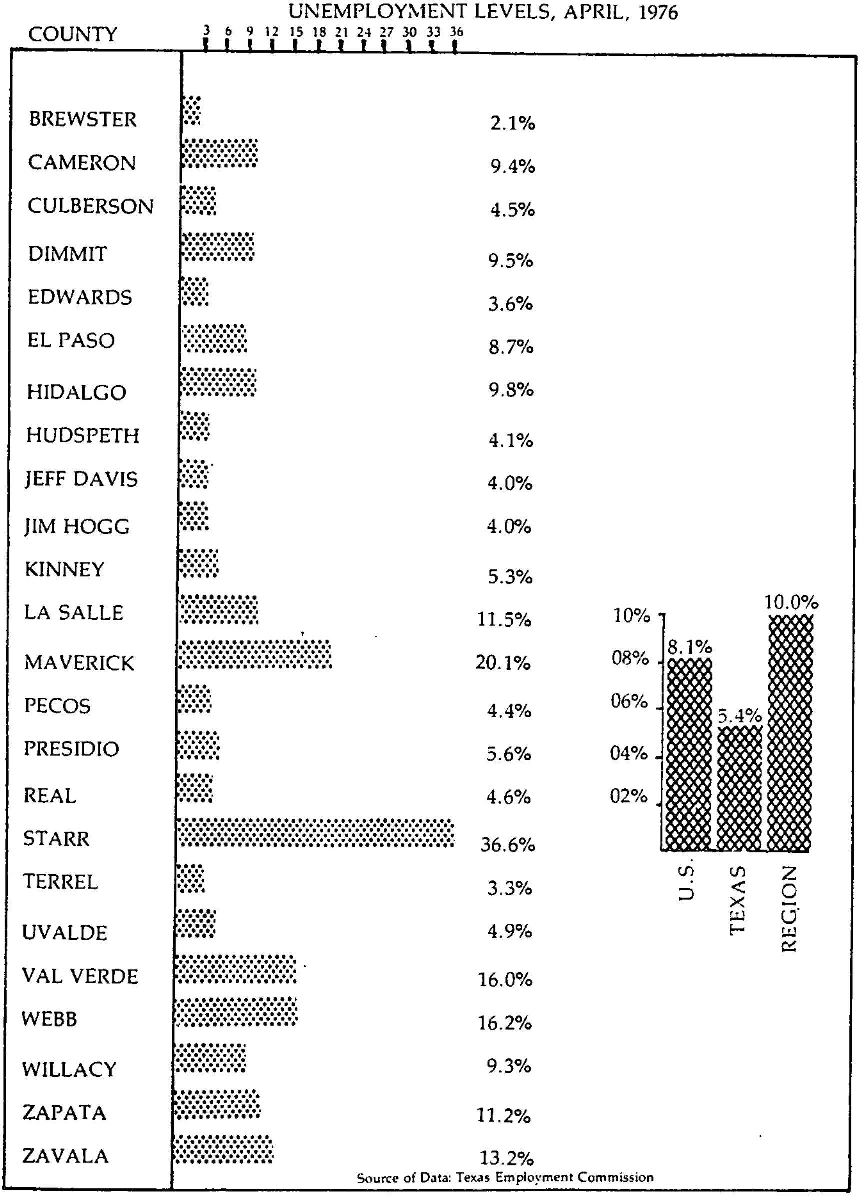
Of all characteristics depicting the economic depression of an area, employment is perhaps the most significant. Jobs provide income and income leads to the economic health and growth of a community. In areas where there has been chronic unemployment there has also been closures of small businesses and the deterioration of services to the entire community.

The unemployment picture in the counties comprising the proposed region has been, and remains worse than the national level. For April, 1976 the unemployment level for the U.S. was 8.1% while the corresponding level of unemployment for the region was at 10% of the labor force. Even though this figure may appear to be high it does not adequately reflect the level of unemployment in the area. As an example, the 10% figure is a median and not an average; it does not for instance take into account the fact that 36.6% of the labor force in Starr County is idle; or for that matter that 20.1% of the labor force in Maverick County and 16.2% of the labor force in Webb County (includes the city of Laredo) is out of work.

Although the recession appears to be ebbing for most of the nation, the economic climate in the proposed region shows no signs of improving. Where the unemployment level for the nation has experienced a positive change — dropping by a percentage point or a half — in recent months, the level of idle workers in the proposed region continues to grow. A good example can be shown in the Starr County situation. In December, 1975 the unemployment rate for this county (as recorded by the Texas Employment Commission — a subcontractor of the U.S. Employment Service) stood at 23.4% of the labor force. By January, 1976 the level rose to 31.5% and by March it showed signs of continued growth to 36.6%.

The level of unemployment in the proposed region far exceeds that of the nation and unfortunately rather than slowing, it continues to grow.

UNEMPLOYMENT LEVELS, APRIL, 1976



Source of Data: Texas Employment Commission

THE MEDIAN LEVEL OF FAMILY INCOME IS SIGNIFICANTLY BELOW BELOW THE NATIONAL MEDIAN

One of the major and most definitive indices of economic prosperity or economic depression is a comparison of the median family income levels of a given area (in this case — the proposed Texas Planning Region) and that of the United States as a whole. The chart on the following page graphically demonstrates the disparity that does exist, and give credence to our claim that the proposed region indeed qualifies under this criterian.

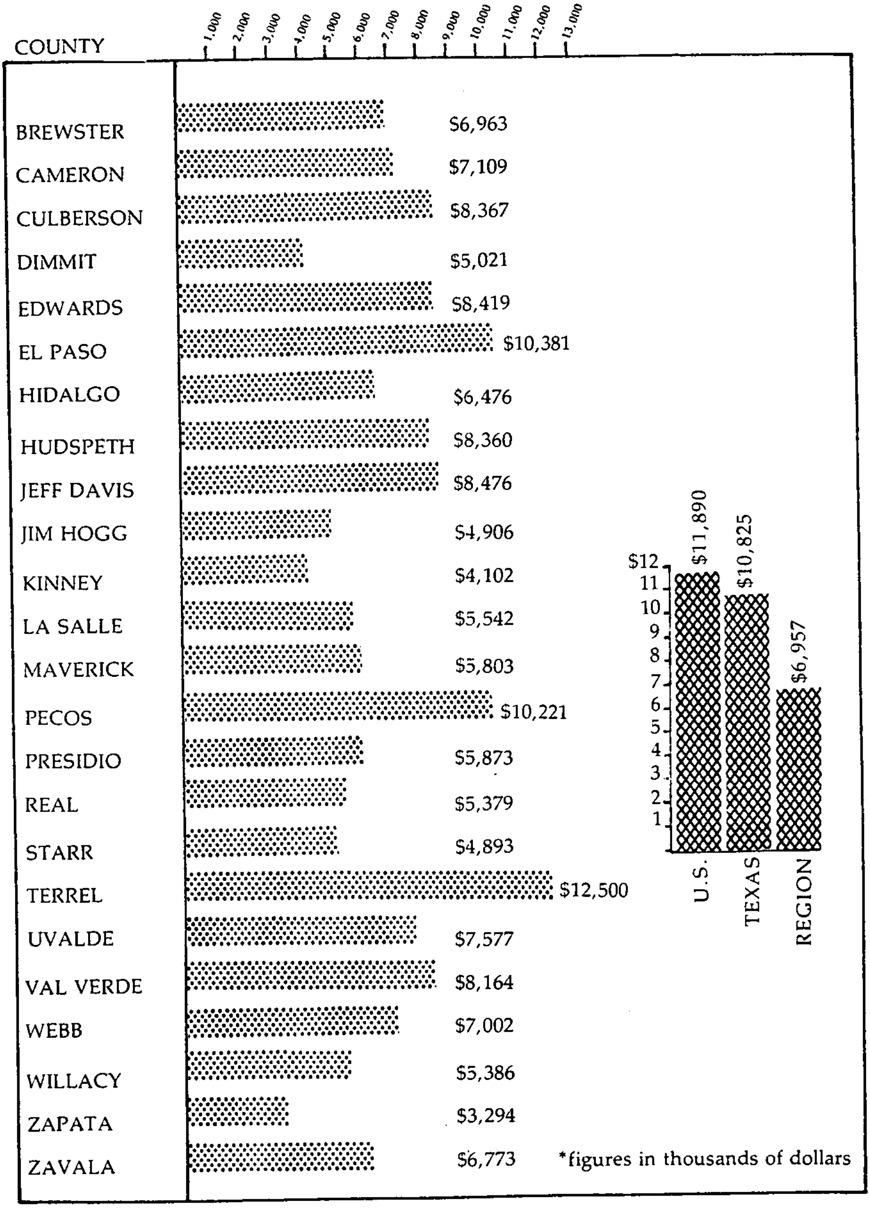
In 1974 the median family income for the nation stood at $11,890 while the median for the proposed (Texas) region — which includes some twenty-four (24) counties was $6,957 — a lag of over 40%. Even more depictive of economic depression in the area is the fact that ten (10) of these counties had median family incomes below the $6,000 level. For example, Zapata County had $3,294, Kinney County $4,102, and Starr County $4,893.

Although Section 501(a) does not require a comparison of per capita incomes, nevertheless we feel that such a significant disparity exists that we have included a comparison between the United States and the proposed (Texas) region. The data, although extracted from the 1970 census, significantly reflects the economy in these counties. Furthermore, as the unemployment level has soared in the same counties it can be assumed that the spread in the per capita income level has become even greater during recent times. Based on data taken from the 1970 census, the per capita income level for the nation stood at $3,781 — sharply contrasting with the region's $1,555.

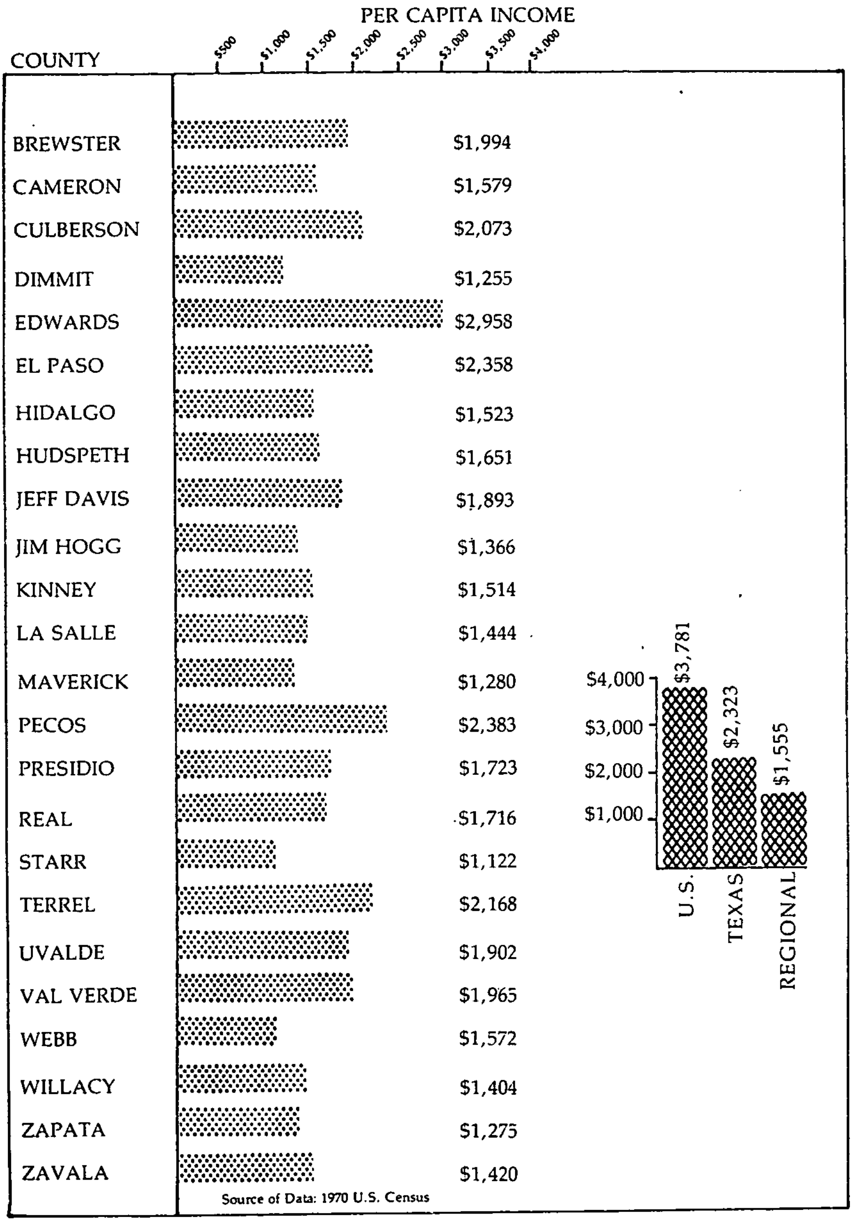
These two glaring levels of income deviation are due to a number of factors (addressed earlier in this application). Foremost among these is the unemployment level — the impact of green carders, white carders and undocumented workers on the wage rates. Out-migration of capital and labor is also reflected.

91-139 O - 77 - 20

MEDIAN FAMILY INCOME, 1974



D.5


PER CAPITA INCOME
COUNTY
$500
$1,000
$1,500
$2,000
$2,500
$3,000
$3,500
$4,000
BREWSTER $1,994
CAMERON $1,579
CULBERSON $2,073
DIMMIT $1,255
EDWARDS $2,958
EL PASO $2,358
HIDALGO $1,523
HUDSPETH $1,651
JEFF DAVIS $1,893
JIM HOGG $1,366
KINNEY $1,514
LA SALLE $1,444
MAVERICK $1,280
PECOS $2,383
PRESIDIO $1,723
REAL $1,716
STARR $1,122
TERREL $2,168
UVALDE $1,902
VAL VERDE $1,965
WEBB $1,572
WILLACY $1,404
ZAPATA $1,275
ZAVALA $1,420
$4,000
$3,000
$2,000
$1,000
$3,781
$2,323
$1,555
U.S.
TEXAS
REGIONAL
Source of Data: 1970 U.S. Census

THE LEVEL OF HOUSING IS SUBSTANTIALLY BELOW THE NATIONAL LEVEL

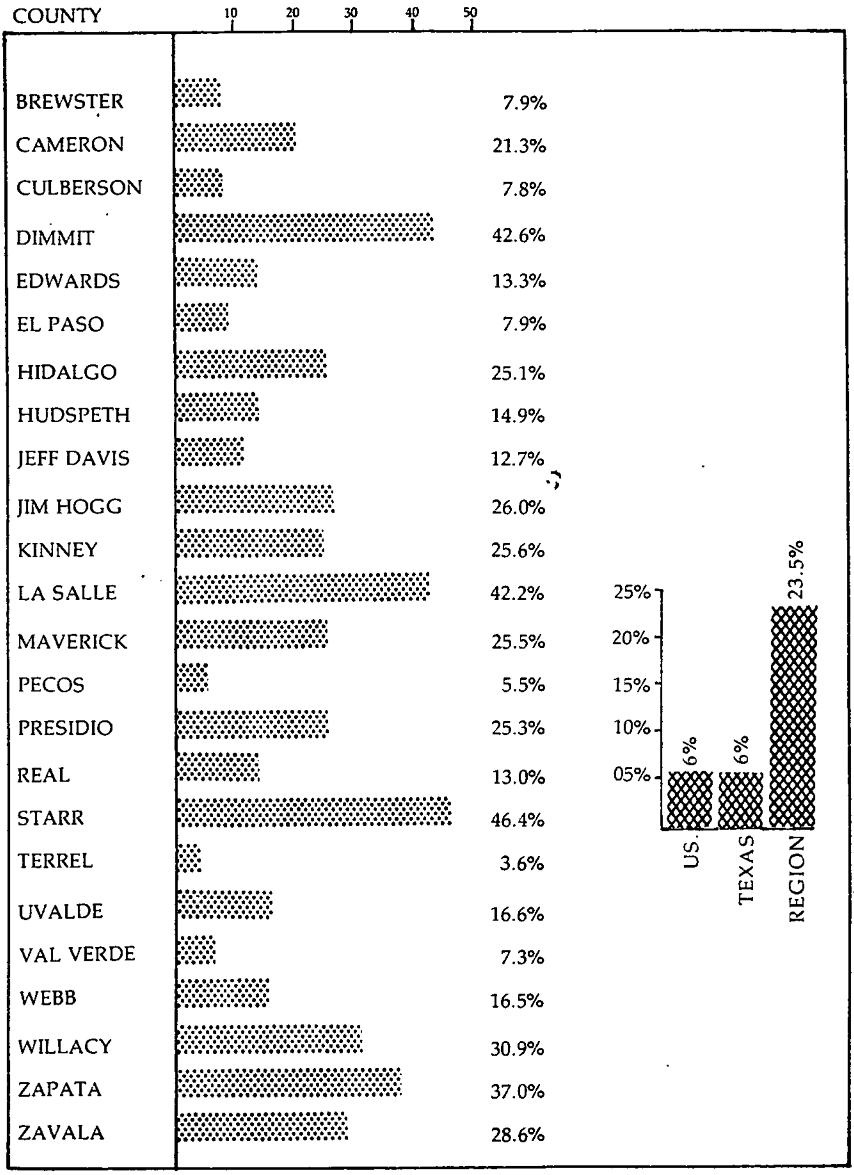
In areas of chronic economic depression — poverty among people is prevalent and inadequate housing can always be found. Crowded housing (number of persons per room) and inadequate plumbing (lacking facilities) are two indicators of this condition.

A review of 1970 census data leaves no question that the proposed region falls significantly below the national level. For example, using an index of one or more persons per room we find that 7% of the nation's population lived under these circumstances, yet, in the proposed region we find that 25.5% of the inhabitants lived under such conditions. When translated into actual numbers — this equates to 250,000 people.

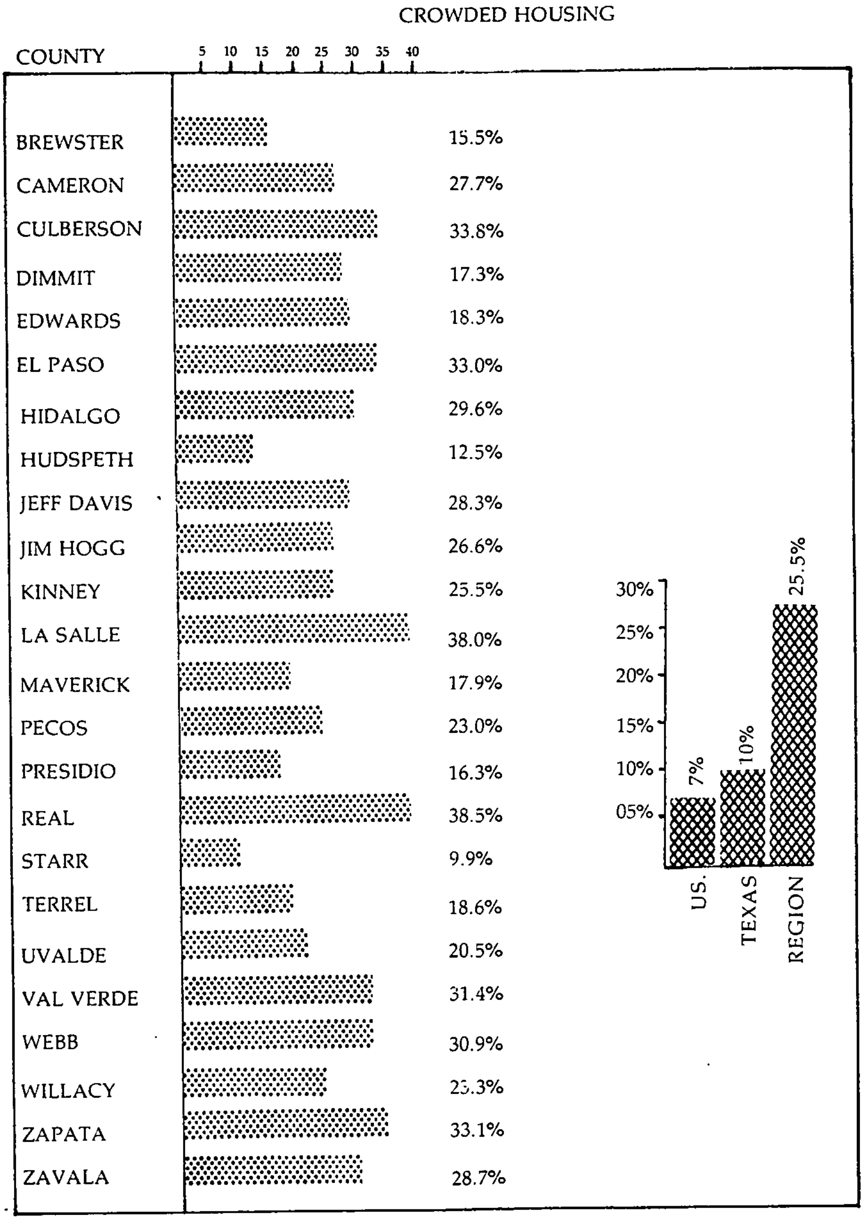
Another indication of substandard housing is the percent of homes lacking plumbing. For the U.S. as a whole, 6% of all housing units fall into this category as compared to 23.5% of all housing units in the proposed region — a rate four times that of the nation. In Starr County the rate is 46.4% of all homes, and in Dimmit County the rate is 42.6%.

The following charts demonstrate the disparity in housing and delineate the extent of the problem in the proposed counties.

PERCENTAGE OF HOMES LACKING PLUMBING



D.8

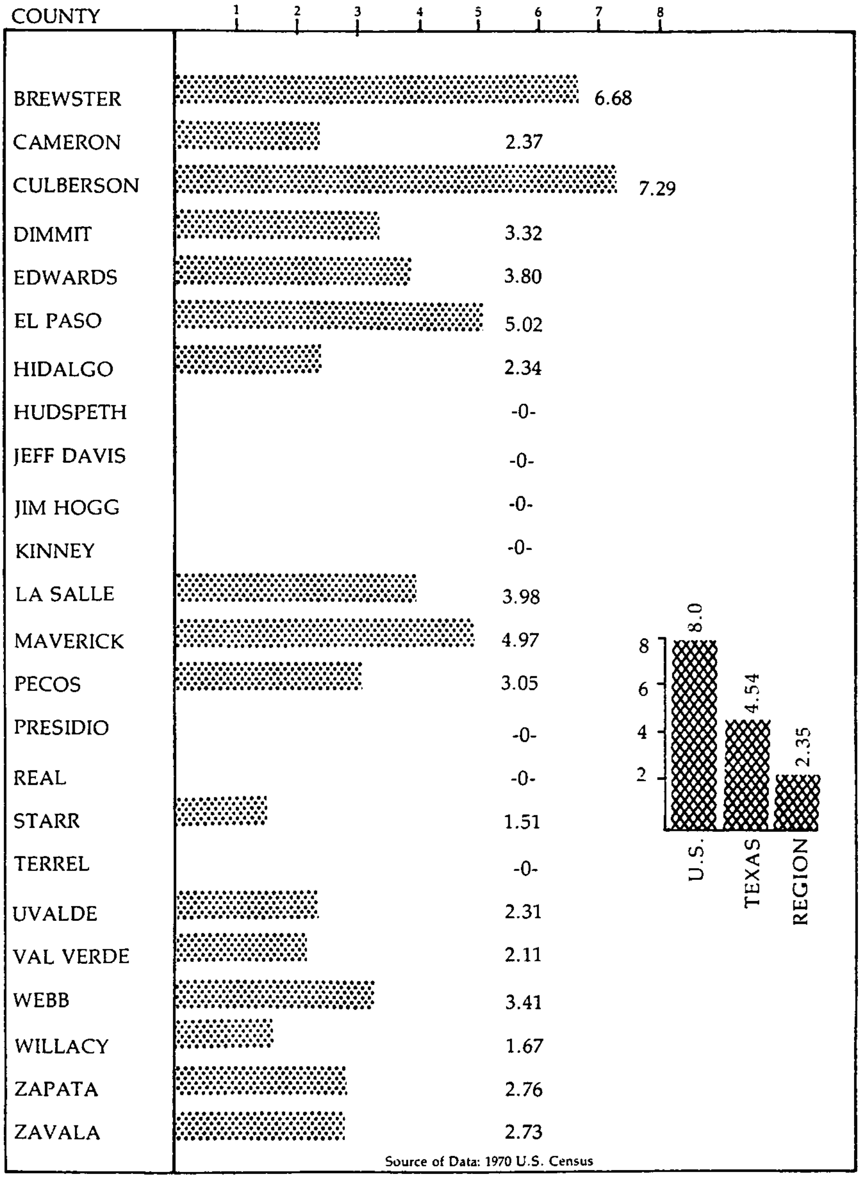

CROWDED HOUSING
COUNTY
5 10 15 20 25 30 35 40
BREWSTER 15.5%
CAMERON 27.7%
CULBERSON 33.8%
DIMMIT 17.3%
EDWARDS 18.3%
EL PASO 33.0%
HIDALGO 29.6%
HUDSPETH 12.5%
JEFF DAVIS 28.3%
JIM HOGG 26.6%
KINNEY 25.5%
LA SALLE 38.0%
MAVERICK 17.9%
PECOS 23.0%
PRESIDIO 16.3%
REAL 38.5%
STARR 9.9%
TERREL 18.6%
UVALDE 20.5%
VAL VERDE 31.4%
WEBB 30.9%
WILLACY 23.3%
ZAPATA 33.1%
ZAVALA 28.7%
30%
25%
20%
15%
10%
05%
7%
10%
25.5%
US.
TEXAS
REGION

THE LEVEL OF HEALTH IS SUBSTANTIALLY BELOW THE NATIONAL LEVEL

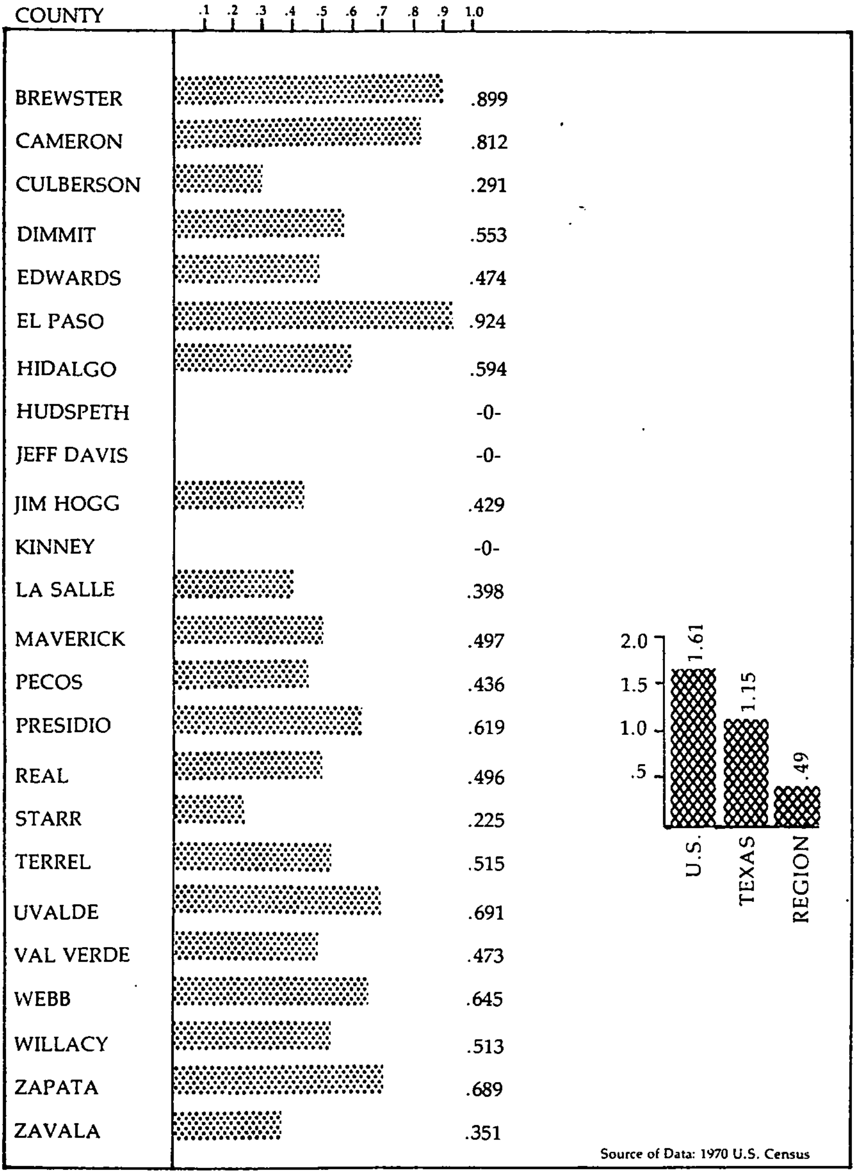
Any health care analysis must consider the impact on inhabitants when there is a marked difference in the quality and quantity of services available. It can be logically concluded that there is a relationship between the level of poverty in a given area and the level of health care; i.e., limited financial resources of an individual (or for that matter a municipality/county) purchase a limited amount of medical care, etc.

We will not attempt to discuss the extent of health problems in the area; we will however, share data which incontrovertibly establishes the fact that the proposed region significantly lags behind the nation as a whole. Data extracted from the U.S. Bureau of the Census reflects the number of Hospital Beds per 1,000 population — 8.0 for the U.S. as opposed to 2.36 for the region; the number of Doctors per 1,000 population — 1.61 for the U.S. as compared to .49 for the region; and the number of Dentists per 1,000 population — .48 for the U.S. as contrasted with .09 for the region.

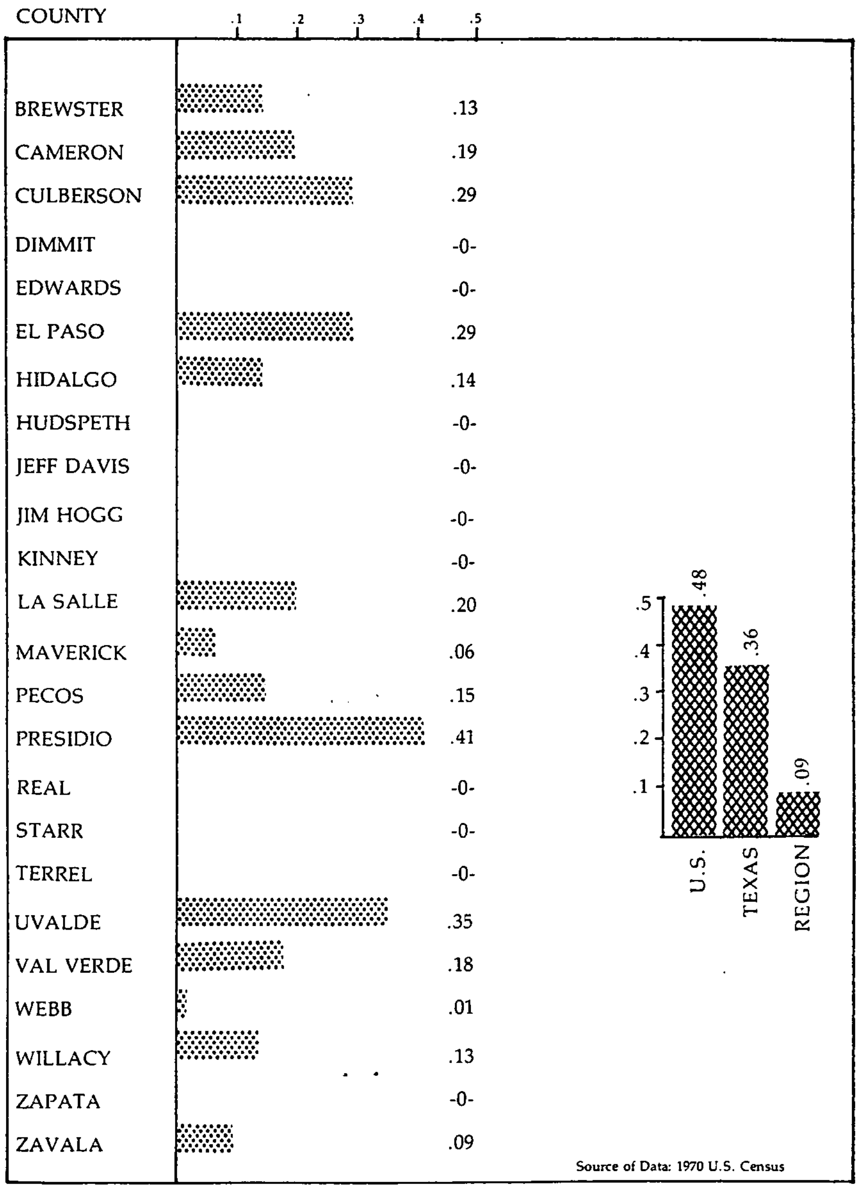
HOSPITAL BEDS FOR 1,000 POPULATION



DOCTORS PER 1,000 POPULATION



DENTISTS PER 1,000 POPULATION

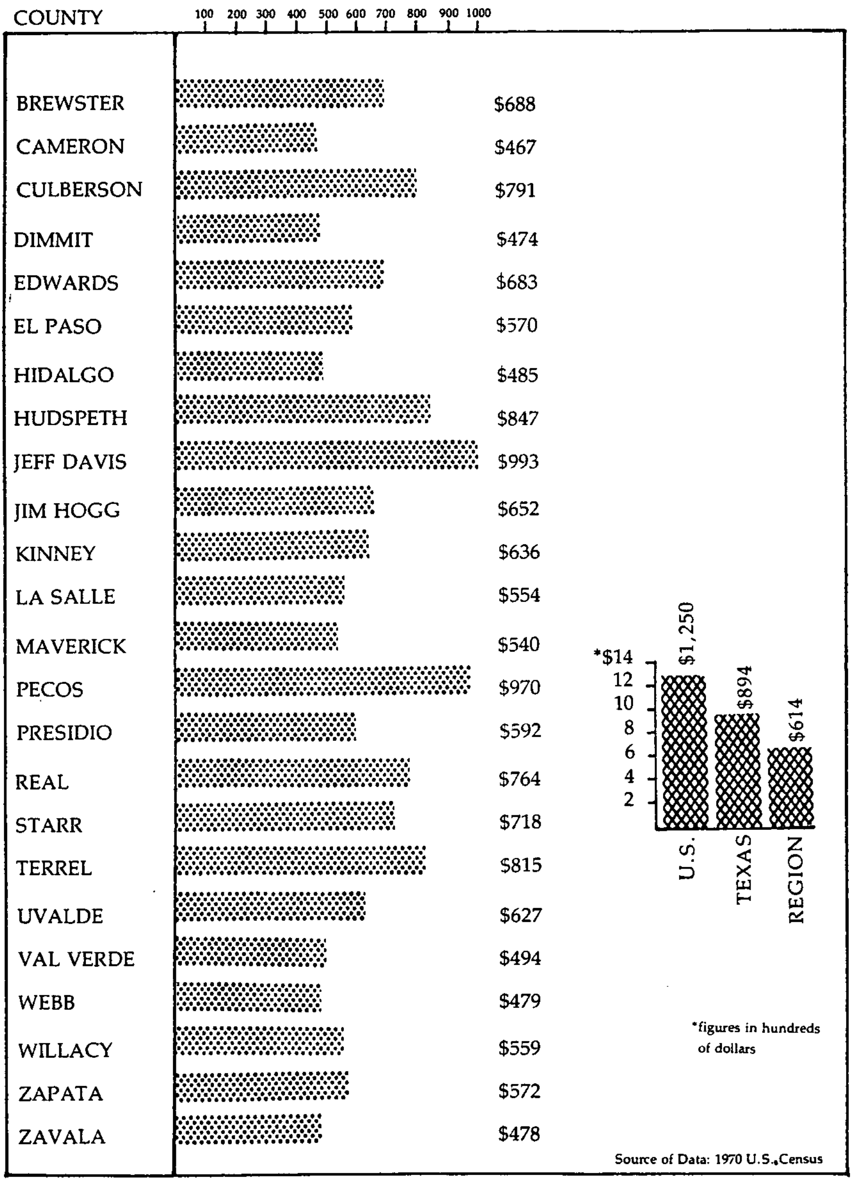


THE LEVEL OF EDUCATIONAL FACILITIES IS SUBSTANTIALLY BELOW THE NATIONAL LEVEL

There are two significant criteria in establishing disparity in the field of education. One has to do with the number of years reached (median years completed) and the other with qualitative aspects. These can be measured by the average expenditure per pupil on Average Daily Attendance.

The most recent data available clearly demonstrates a gross disparity between the U.S. as a whole and the proposed Title V planning region. Where the U.S. average expenditure per pupil on ADA was $1,250, the rate of expenditure in the proposed region was less than half that — $614. This low rate is reflected by the lag in the building of educational facilities and the qualitative level of education. Lack of education is frequently cited as a cause of poverty. Data will show that there is a direct relationship between expenditures for education and educational levels achieved; as well as educational attainment and income levels. The following chart depicts the twenty-four counties and their average expenditures.

AVERAGE EXPENDITURE PER PUPIL IN ADA



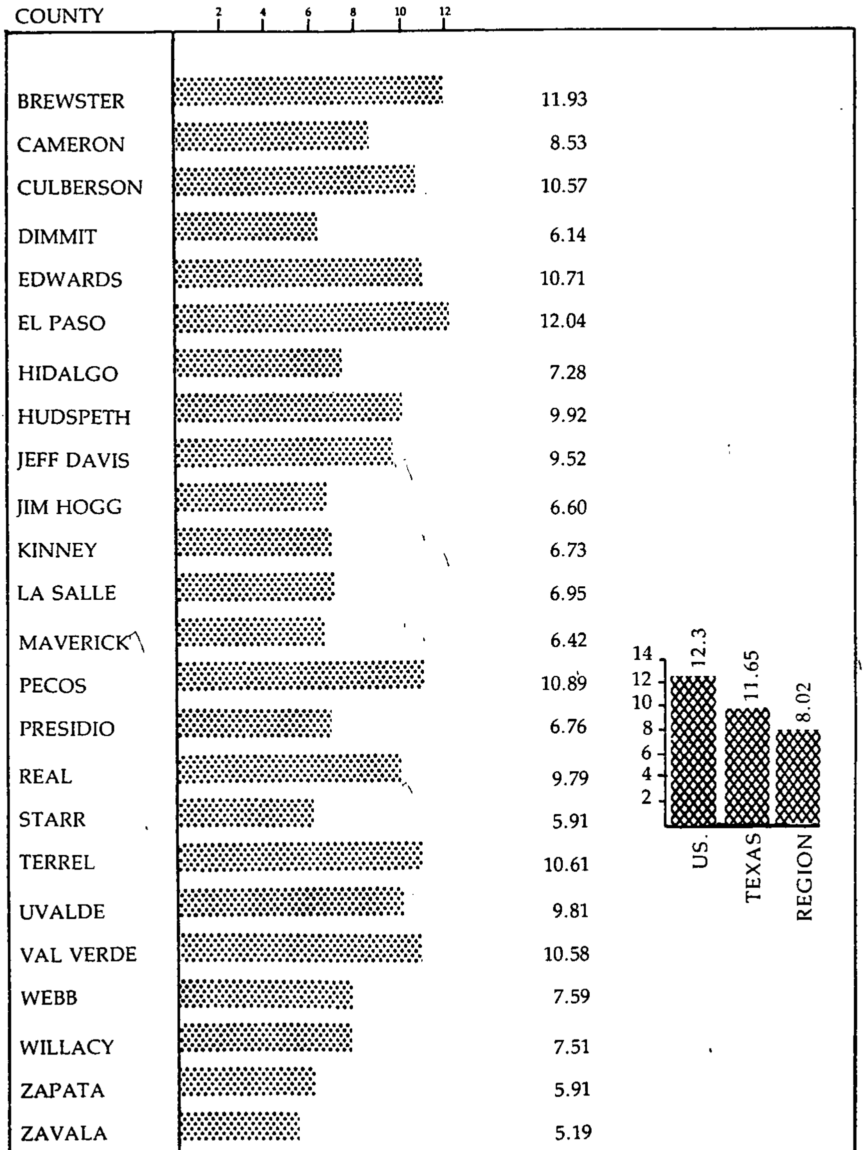
D.15

THE LEVEL OF EDUCATIONAL ATTAINMENT IS SUBSTANTIALLY BELOW THE NATIONAL LEVEL

Although Section 501 does not directly request comparative data on median school years completed (for individuals 25 years of age and older) — this particular index is included in support of our contention that the proposed region falls behind the nation in every major category. The importance of this indictor lies in the fact that the future of any individual and correspondingly — the future of any community — is based on educational level attained. There is a direct relationship between career levels, median family income, per capita income, the economic potential of a community, and the educational level attained.

Data contained in the following chart depicts that the median level for the U.S. (based on 1970 census data) was 12.3 years of education as contrasted with 8.02 for the twenty-four county area. A review of county-by-county data points out even more drastic disparities; i.e., Zavala County has a median of 5.19 years completed, while Zapata and Starr Counties have a 5.91 median.

MEDIAN SCHOOL YEARS COMPLETED



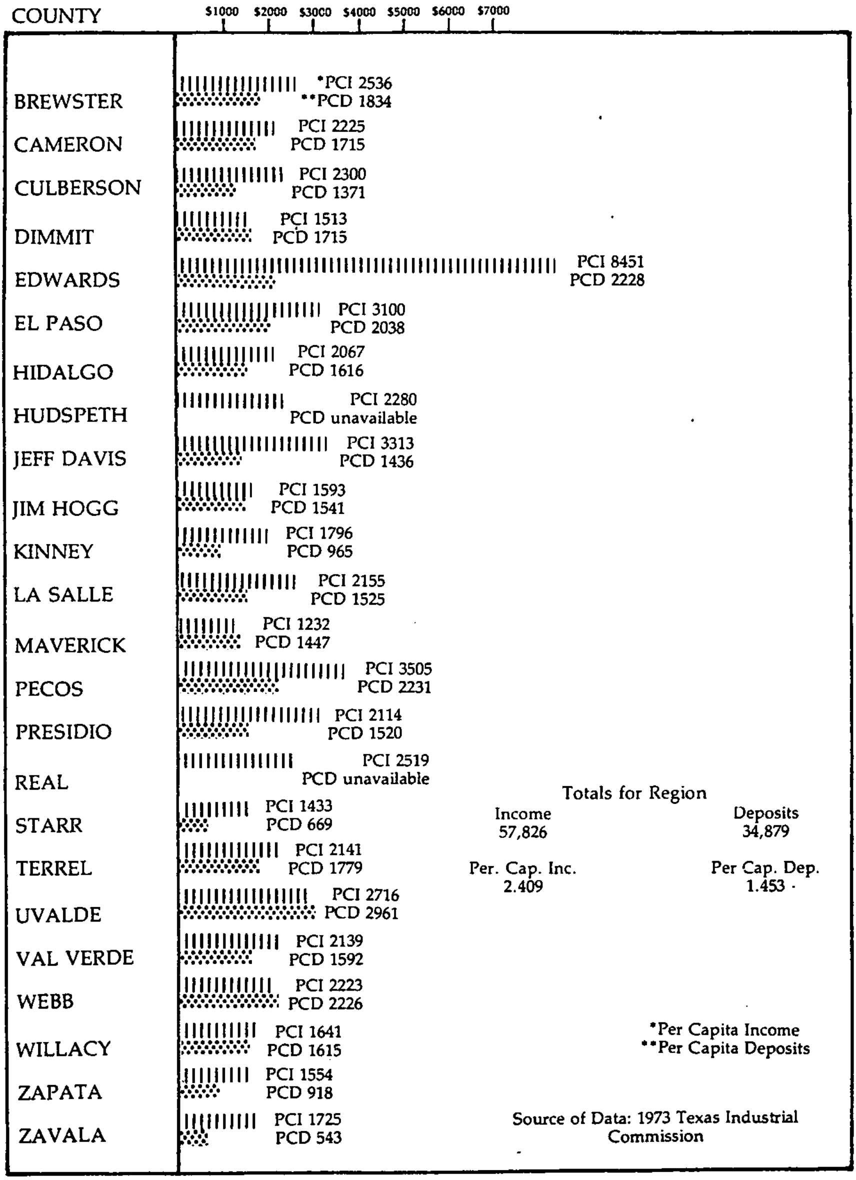
Source of Data: 1974 Abstract of U.S. Census

THE RATE OF OUTMIGRATION OF CAPITAL IS SUBSTANTIAL

The oil industry — by the very nature of its operations — acts as a source of heavy capital out-flow. In 1973 over $490.2 million dollars worth of crude oil left the area. However, such raw material values are not the only source of capital out-flow. Purchasing power leaves the area daily.

A comparative analysis of the per capita bank and savings institutions deposits for the region — against the per capita income for the same region — shows that $956.00 for every man, woman, and child leaves the area annually. This is an indication of the flight of capital since every penny earned by the people of the region should eventually find its way into one of the financial institutions. All funds used for the purchase of goods and services will eventually end up in the hands of a merchant for deposit in a local bank. Thus the difference between the $2,409.00 per capita income for the region and the $1,453.00 per capita deposit — clearly constitutes a case of out-flow of capital at a rate of 39.6%.

Per Capita Income Compared With Per Capita Bank and Savings Institutions Deposits



THE AREA IS ADVERSELY AFFECTED BY CHANGING INDUSTRIAL TECHNOLOGY

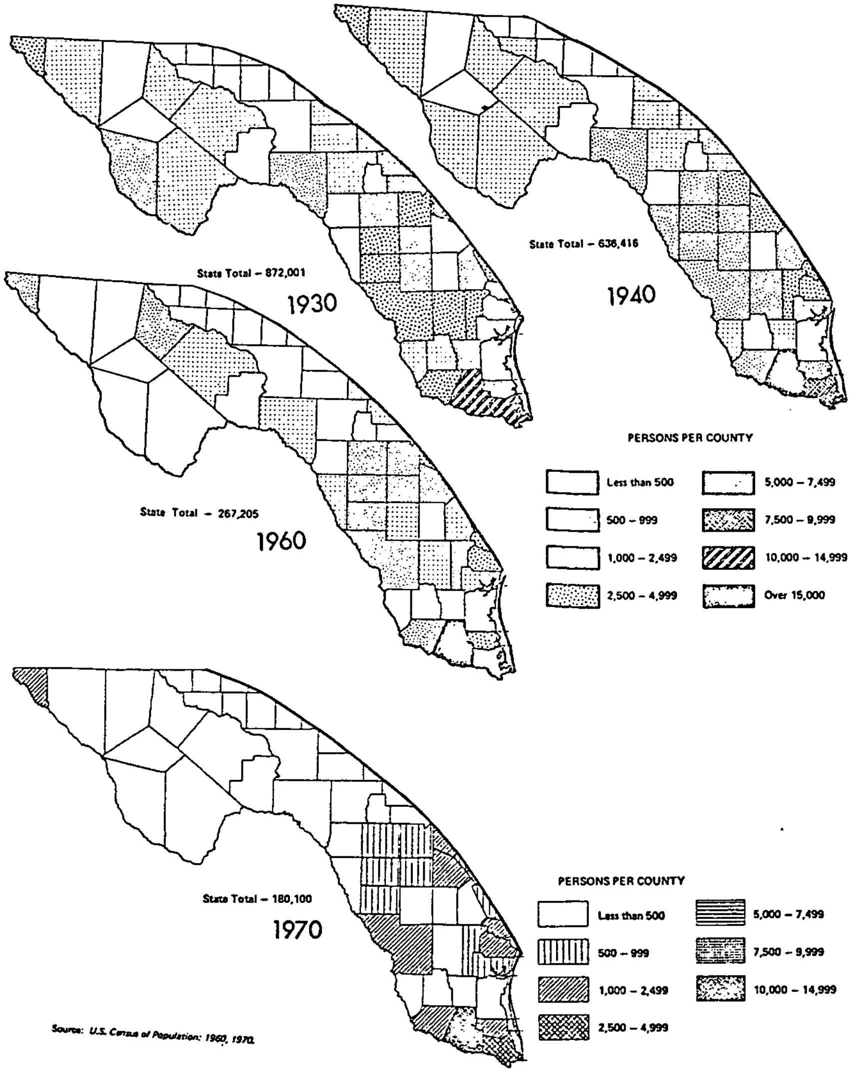
It has been a widely established and accepted fact that farm workers are being displaced by mechanization at a rate of 10% annually. Irrespective of the rate, changes in agriculturally related technology are occurring and workers are feeling the adverse effects of these changes.

The proposed region's economy is predominately based on agriculture. Small farms have been absorbed by larger ones and the production of crops have steadily increased over the years. The logical conclusion to be reached is that with an increase in production and acreage under cultivation — there is a corresponding increase in the number of related jobs. Unfortunately this has not been the case. Studies indicate that the number of farm workers employed locally has decreased. Yet there has been an increase in the number of farm workers within the region — seeking to migrate to other areas in search of employment. This fact not only points out the out-migration of labor, but also depicts the adverse effect of technological changes on the economy of the proposed region.

Data on the following pages show the increase in productivity and the decrease in hired farm hands. In 1974 the cash receipts from the sale of farm products for the twenty-four county area was $404,686,000 — an increase of $57.7 million over the previous year. Irrespective of the increased income for farm products, there was also a tremendous increase in productivity. Data regarding numbers of individuals employed in agriculture is even more revealing. Over a six-year period the number of people employed in agriculture had a notable decrease (see accompanying chart). The reporting periods were identical (April 1969 and April 1976) as was the source, the Texas Employment Commission.

91-139 O - 77 - 21

AGRICULTURAL EMPLOYMENT

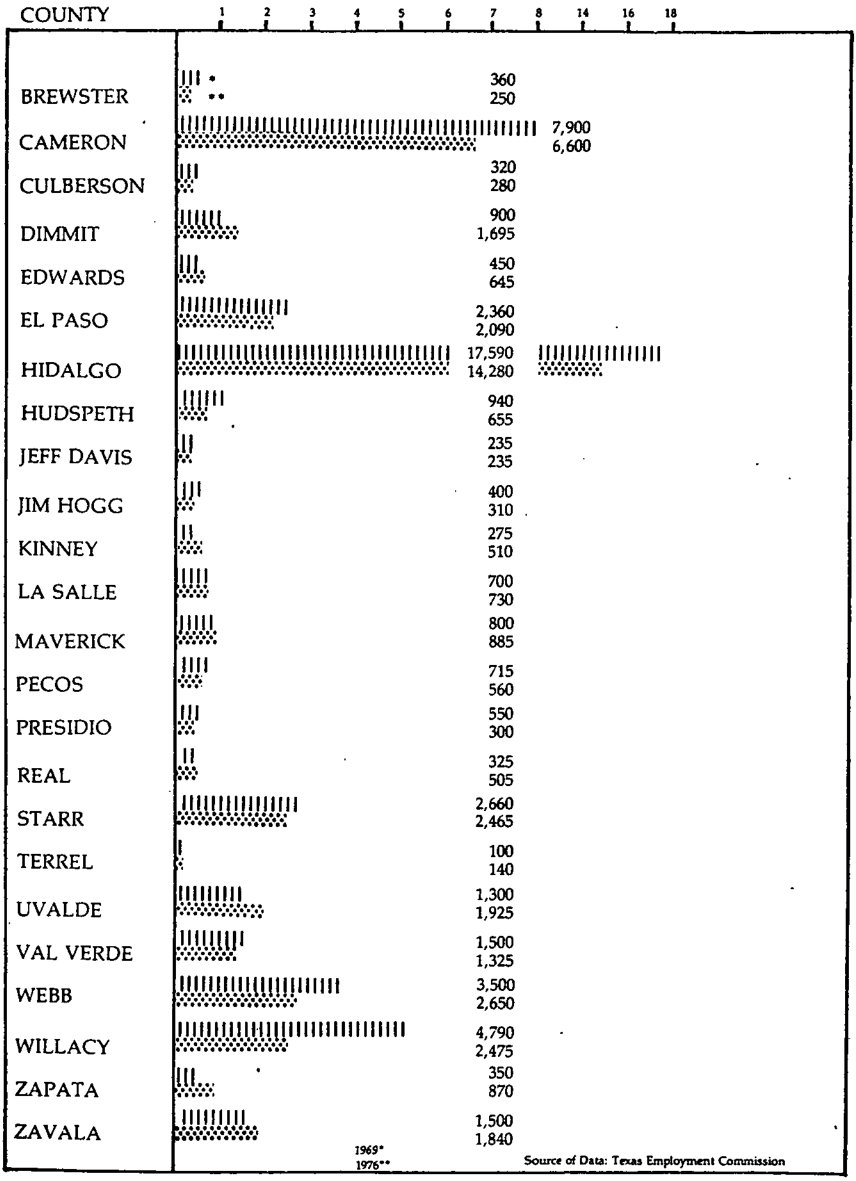


CASH RECEIPTS: ALL CROPS ($1,000)

COUNTY	1973	1974
Brewster		
Cameron	51,770	75,020
Culberson	2,993	2,199
Dimmit	5,798	4,127
Edwards	56	25
El Paso	15,869	13,411
Hidalgo	161,173	190,993
Hudspeth	5,848	5,678
Jeff Davis	160	118
Jim Hogg	479	816
Kinney	2,446	1,293
La Salle	4,395	7,067
Maverick	1,701	3,351
Pecos	7,458	6,167
Presidio	2,669	2,033
Real	32	57
Starr	19,795	15,981
Terrel	1	1
Uvalde	9,957	10,33
Val Verde	12	21
Webb	3,310	1,971
Willacy	33,193	47,772
Zapata	1,001	1,093
Zavala	16,859	14,996
TOTALS	346,976	404,686

Source of Data: Texas Department of Agriculture.

TOTAL AGRICULTURAL WORKERS: 1969 & 1976



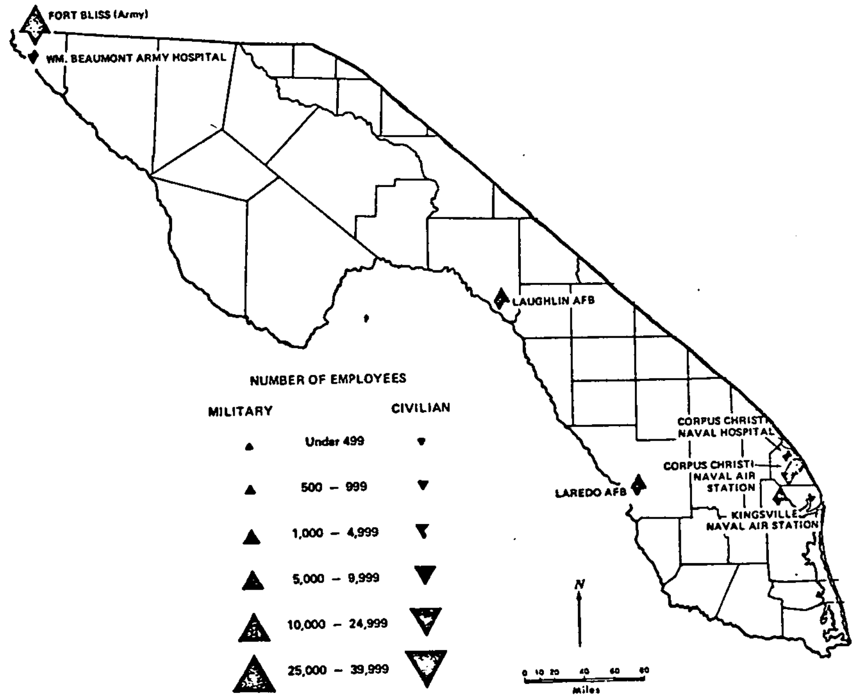
ADVERSE AFFECT BY CHANGES IN NATIONAL DEFENSE FACILITIES

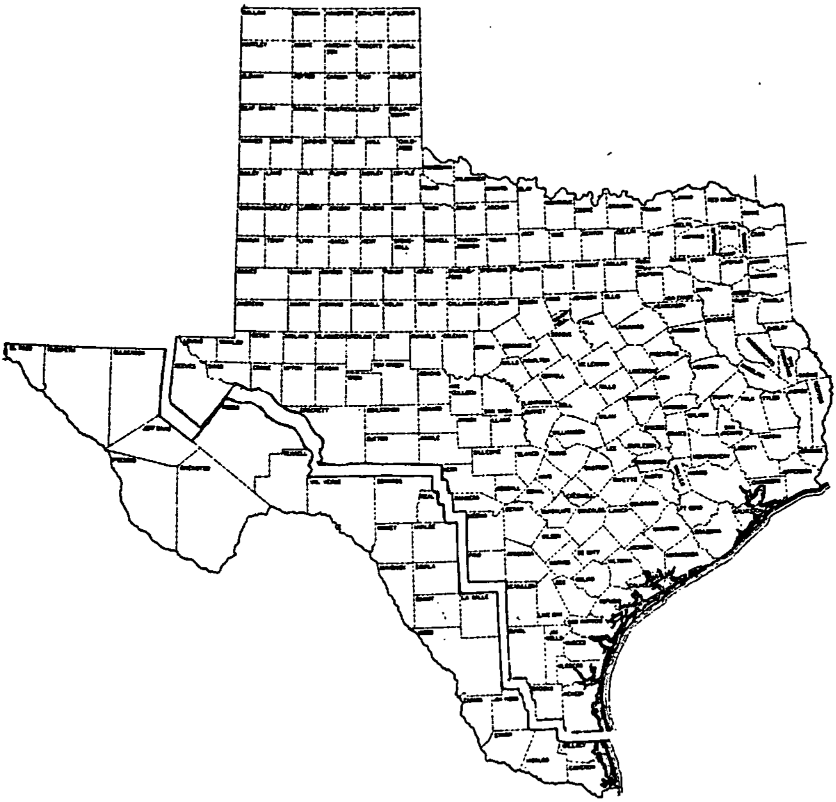
Several major military installations have been located within the proposed (Texas) planning region. As is the case in any community where a lone industry is dominant; the very life-blood of that industry has a direct bearing on the economy of the entire community. When the industry or in this case a military installation, either cuts back production, or shuts down operations entirely — the residual effect is absorbed by the community in general. A case in point is the Laredo Air Force Base situation and the adverse affect it had on the citizenry of that border community.

In April, 1973 the Department of Defense announced the pending closure/cutback of a number of military installations. Included on the list was Laredo AFB with a military population of 2,111 and civilian employees numbering 527. The annual military payroll at that time was $19,637,504 and the civilian payroll was $4, 726,940. Also, the City of Laredo had an unemployment rate of 11.2% during April, 1973. The base actually closed on September 30, 1973 and by January, 1974 the unemployment rate had climbed to 18.9%. The loss of local service contracts previously held with the base caused numerous bankruptcies among the business community and resulted in severe disruption of the local economy.

The map of the proposed (Texas) planning region identifies the location of military installations.

MILITARY EMPLOYMENT BY MAJOR INSTALLATIONS, 1970





D.26

EXHIBIT E

DOUGLAS CHAMBER OF COMMERCE DRAWER F · DOUGLAS, ARIZONA 85607

January 11, 1977

The Honorable Raul Castro
Governor State of Arizona
State House
Phoenix, Arizona 85007

Dear Governor Castro:

In response to a request by your Office of Economic Planning and Development for comments relative to relationships between Agua Prieta, Sonora, Mexico and Douglas, Arizona; we are pleased to report that excellent relationships exist between the two cities including the city governments and the Chambers of Commerce.

We have experienced a definite reduction in winter visitors and day to day tourists which we believe primarily to be the result of unfavorable publicity as a result of several serious incidents to American tourists traveling in Western Mexico and recorded widely via the American news media.

We did, during the period September 1 to October 15, 1976 experience an estimated 30 percent reduction in retail sales as a result of the devaluation of the peso. Since October 16, the local retail sales have made an estimated 18 percent recovery. Our Christmas season retail sales were comparatively excellent although not as good as 1975, based on the peso revaluation and local retail sales management efforts.

Respectfully yours,
For the Board of Directors

Burdette A. Shannon

Burdette A. Shannon
Executive Director

BAS/mbp

where the Old West still lives!

TELEPHONE 364-8405

425 TENTH STREET

THE CITY OF DOUGLAS

OFFICE OF THE MAYOR
CITY HALL
DOUGLAS, ARIZONA 85607

The economy of the Douglas, Arizona-Agua Prieta, Sonora, Mexico area has been jolted by the devaluation of the Mexican peso.

Unemployment has increased to 9.8%; the crime rate has increased in both the drug and local crime areas. The unemployment problem will be further increased by the possibility of the Phelps Dodge Smelter closing. The closing of the Phelps Dodge Smelter will involve approximately 500-600 jobs.

The twin city plants are helping to take-up some of the unemployment, but the current laws in Mexico must be changed in the textile area to provide more stability. This then, will encourage increased production and jobs through the twin city plants.

Tourism has also been affected by the unrest in Mexico, caused by the devaluation of the peso. The devaluation of the peso should cause an increase in tourism through the Douglas-Agua Prieta Port of Entry, but because of news releases on reports of terrorism in the State of Sonora, tourists have stayed inside the United States borders. Douglas-Agua Prieta in the past have developed a good tourism business, and the decrease has caused additional unemployment.

91-139 O - 77 - 22

The economic future of the Douglas community lies with two possibilities. First, that the E.P.A. will rescind its Federal Rules and Regulations regarding the operation of the Phelps Dodge Douglas Smelter. The Smelter is needed and can be economically operated under the State Rules, but not the Federal E.P.A. Rules. Secondly, Douglas is in the process of making application for funds from the Farmers Home Administration and the Four Corners Regional Commission to develop an Industrial Park. When these monies are awarded, and the Industrial Park is developed, businesses moving into the Park will be able to employee part of the people that are unemployed because of the aforementioned reasons.

The economic future of Douglas certainly depends upon the action taken by the State Legislators and the Federal Legislators.

Ray D. Willcox

RAY D. WILLCOX, MAYOR
CITY OF DOUGLAS, ARIZONA

CITY OF TUCSON

LEWIS C. MURPHY
MAYOR

January 14, 1977

250 WEST ALAMEDA
P. O. BOX 27210
TUCSON, ARIZONA 85726
PHONE: (602) 791-4201

The Honorable Raul Castro
Governor of Arizona
Capitol Building
Phoenix, Arizona 85007

Dear Governor:

It has come to my attention that you have been asked to testify before a U.S. Senate subcommittee on the economic situation in Mexico as it has affected the border states.

There are two suggestions that I would make on Congressional action that could assist the economy on both sides of the international border:

1. Increase the amount of duty-free merchandise that Americans visiting Mexico can bring home. It is my feeling that the maximum amount should be increased from $100 to $200.

2. Increase the amount of spirituous liquor that can be brought back from a quart to a gallon.

The rationale is that these incentives could dramatically increase trade between northern Mexico and the U.S. border cities, to the benefit of all concerned.

Your giving me the opportunity to comment on this important matter is appreciated. As the Mayor of Tucson, I am concerned about my own city's economic well-being as it is affected by the U.S.-Mexico relationship. As the President of the League of Arizona Cities and Towns, I am concerned about the plight of Arizona's border cities that depend so much on economic intercourse with Mexico.

You have my best wishes as you attempt to draw the attention of the federal legislators to this problem.

Sincerely,

L. C. Murphy

LCM/nb

Yuma County Chamber of Commerce

P. O. Box 230 Yuma, Arizona 85364
(602) 782-2567

January 12, 1977

STATEMENT OF THE YUMA COUNTY CHAMBER OF COMMERCE
REGARDING IMPROVEMENTS THAT COULD BENEFIT U.S./MEXICO
BORDER RELATIONS

It has long been our contention that the U. S. Border Inspection Station at San Luis is inadequate for the crossings it must process. The dramatic growth of San Luis, Sonora from less than 5000 inhabitants in 1950 to approximately 85,000 at present attests to the expansion of that traffic.

Total border crossings in 1976 were up 40% from the previous year and reached 6.10 million compared to 4.37 million. Vehicular traffic increased 74,000, passengers were up 1.28 million and pedestrians crossing about 447,000.

In spite of the peso devaluation on August 31, 1976, September pedestrian traffic climbed to nearly 110,000 compared with 43,600 during the same month in 1975. During November, which followed the second devaluation, that traffic dipped only slightly below 1975 totals.

It has been our observation that the two-lane system employed at the inspection station is entirely inadequate during busy hours and vehicles are frequently backed up for blocks. During the summer months, this situation often causes vehicular overheating and similar results to the human element.

Since much of this traffic relates to people employed in the U. S., the hardship is easily understood. Similarly, many wish to shop in the Yuma area and others are engaged in international trade on both sides of the border.

Accordingly, we further recommend that a means be found which would enable the Immigration and Naturalization Service to process a greater quantity of the border crossing cards, a situation which because of the time lag, caused some controversy earlier this year.

These recommendations, I believe, would enhance economically and socially, the generally good relations between the two communities.

A. M. Bjornstad

A. M. Bjornstad
President

CITY OF YUMA

180 FIRST STREET - YUMA, ARIZONA 85364

January 13, 1977

Mr. Bob Byars
1700 West Washington
Suite 505
Phoenix, Arizona 85007

Dear Mr. Byars:

At the request of Hugh Winderweedle, we submit the following information for the Honorable Governor Castro to use in Washington, D.C.

Many factors effect the relationship of U.S./Mexico Border. Border crossing traffic flow is not smooth or well planned.

Increased populations on both sides of the Border has caused many problems and the need for more inspectors.

The peso situation has changed life conditions for the Mexican people and effects their shopping for necessities in the United States.

The Inspection Station at San Luis must be updated to speed up the process of assisting the Meixcan people who wish to enter our country to shop and visit.

More courtesy should be shown to all people who cross the border, regardless of race, creed or color.

We need the good Mexican people who work in our area and we need the good Mexican people to buy our merchandise.

Office of the Mayor
180 First Street Yuma, Arizona 85364

1-13-77

Mr. Bob Byars
page 2.

We do not need the evil people of any country.

Sincerely,

Ersel C. Byrd
Mayor
CITY OF YUMA, ARIZONA

ECB/mw

GREATER BISBEE CHAMBER OF COMMERCE

In the County of Cochise

BISBEE **ARIZONA**

Serving the Greater Bisbee Area for Over Fifty Years

The merchants in the Bisbee area are cooperating with the people in Mexico. They are giving a rate of 20 to 1 on the peso. Several of the merchants in our area are extending credit across the line as recommended by Governor Castro. They are carrying this themselves instead of having it financed by the banks. Several Bisbee businesses involved in this feel their Mexican business is slowly picking up.

Thomas E. Siddons
President
Bisbee Chamber of Commerce
Drawer BA
Bisbee, AZ 85603

"Air Conditioned by Nature"

Charles E. "Chuck" Eads
MAYOR
CITY OF BISBEE

Office of the Mayor
P.O. Box 7
Bisbee, Arizona 85603
(602) 432-5446

Eads Construction/Redi-Mix
P.O. Box 4487
Bisbee, Arizona 85603
(602) 432-4121

January 12, 1977

Mr. Robert Byars
Office of Economic Planning
and Development
1700 West Washington
Phoenix, Arizona 85007

Dear Mr. Byars:

In response to our recent telephone conversation regarding the relationship between our City and the City of Naco, Sonora, Mexico, we have several on-going programs. A local committee with myself as chairman, Mr. Tommy Siddons, Chamber of Commerce President, and local businessmen, meets once a month with El Presidente Luis Guerrero to discuss various matters concerning both cities. Chief of Police D. B. Lombardini has attended several meetings where police problems on both sides of the border were discussed. Other officials and businessmen are asked to attend to add contributions in their fields from time to time.

Some of the programs we have discussed are translation of Spanish traffic signs into English for benefit of American tourists. Mexican police have been watching the cars belonging to tourists to prevent vandalism. Whenever an American tourist meets difficulties with the Mexican police, they have been asked to contact our committee for assistance rather than simply jail the lawbreaker. Soft ball games have been held between Naco and Bisbee.

It was a pleasure talking with you. If I can be of any further assistance please feel free to call me.

Sincerely,

Chuck Eads

CHARLES E. "CHUCK" EADS
Mayor

CEE:bb

NOGALES-SANTA CRUZ COUNTY
CHAMBER OF COMMERCE

P. O. Box 578 • Nogales, Arizona 85621 • (602) 287-3685

RECEIVED
JAN 13 1977
ECONOMIC DEVELOPMENT
OFFICE OF ECONOMIC PLANNING
& DEVELOPMENT

January 11, 1977

Mr. Frank Mangin
OEPAD Office
1700 W. Washington
Phoenix, Arizona 85000

Dear Mr. Mangin:

A statement regarding the economy of Santa Cruz County:

As a result of the Peso Devaluation, unemployment is 19.6%
Retail Sales as of this date are off 25 to 30 per cent.

Suggested remedies are as follows:

1. Eliminate the 4 per cent Sales Tax on all Retail Sales to Mexican Nationals.

2. Immediately eliminate the delays caused by "Red tape" on Mexican Nationals applying for crossing cards for purpose of traveling and shopping in the U.S.A.

3. Funds to be made available for Santa Cruz County for the purpose of advertising and public relations with reference to attract tourists to Santa Cruz County.

Cordially yours,

Charles V. Fowler
Executive Director

PHONE P.S. "#4 - SMALL BUSINESS LOANS TO BE MADE AVAILABLE AT A LOW INTEREST RATE FOR THESE BUSINESS' IN DISTRESS DUE TO PESO DEVALUATION."

CVF/wcc

Mayor Arthur H. Doan
City of Nogales, AZ

WE BELIEVE THAT OUR TWIN CITIES OF NOGALES SHARE A SERIES OF UNIQUE AND VERY SERIOUS PROBLEMS. THESE PROBLEMS HAVE COMMON ECONOMIC AND SOCIAL CHARACTERISTICS AND THEY EXTEND ACROSS OUR INTERNATIONAL BOUNDARY. IT IS A LITTLE MORE DIFFICULT BEING A BORDER TOWN MAYOR AND IT IS DIFFERENT THEN BEING A MAYOR FROM A NONE BORDER TOWN. THIS IS FOR SEVERAL REASONS:

1. YOU HAVE TWO FEDERAL GOVERNMENTS TO CONTEND WITH. AS YOU KNOW, IT IS HARD ENOUGH TO DEAL WITH ONE FEDERAL GOVERNMENT, LET ALONE DEALING WITH TWO OF THEM. EVERY PROJECT THAT WE UNDERTAKE SEEMS TO TAKE TWICE AS LONG TO ACCOMPLISH AS IT WOULD SOMEPLACE ELSE AWAY FROM THE BORDER. YOU TAKE FOR INSTANCE OUR INTERNATIONAL SEWAGE TREATMENT PLANT. IT TOOK US SEVEN OR EIGHT YEARS TO FINALLY GET THIS ONE PROJECT ACCOMPLISHED. THE TREATMENT PLANT IS IN THE U.S. SIDE OF THE BORDER AND TAKES CARE OF THE NEEDS OF BOTH CITIES AND IT IS PROJECTED THAT IT WILL DO SO UNTIL THE YEAR 1990, AND PERHAPS THE YEAR 2000.

2. OUR WATER SUPPLY FOR BOTH CITIES COMES FROM THE SAME SOURCE AND THAT IS THE SANTA CRUZ RIVER. NOGALES, SONORA TAPS INTO THIS SUPPLY FIRST AND THEN NOGALES, ARIZONA GETS ITS SUPPLY FURTHER DOWN STREAM. AFTER THESE WATERS HAVE BEEN USED BY BOTH CITIES, IT GOES TO OUR INTERNATIONAL TREATMENT PLANT WHICH IS EIGHT MILES NORTH OF NOGALES, ARIZONA. IT IS PROPERLY TREATED AND THE EFFUENT FLOWS BACK INTO THE SANTA CRUZ RIVER.

3. WE WORK VERY CLOSELY IN OTHER AREAS, FOR INSTANCE, THESE ARE THE ONLY TWO BORDER CITIES ALONG THE 2,000 MILE BORDER WHERE THE FIRE DEPARTMENTS ANSWER FIRE ALARMS ON EITHER SIDE OF THE BORDER. DO NOT FORGET THAT WE ARE CROSSING INTO A FOREIGN COUNTRY WHEN WE DO THIS. I DO NOT KNOW OF ANY PLACE ELSE IN THE WORLD THAT THIS IS DONE. OUR LAW ENFORCING AGENCIES WORK VERY CLOSELY TOGETHER. WE PARTICIPATE IN SPORTS, CIVIC EVENTS, PARADES, FIESTAS, YOU NAME IT, WE DO IT AS IF WE WERE ONE CITY.

NOW, BY THE SAME TOKEN, WE HAVE OUR SERIOUS, MUTUAL PROBLEMS AND THIS IS MOSTLY IN THE AREA OF EASIER OR FREER FLOW OF TRAFFIC OF GOODS AND PEOPLE BETWEEN BOTH COUNTRIES. WE HAVE OUR PROBLEMS WITH I.N.S. AND U.S. CUSTOMS. THESE PROBLEMS ARISE, WE ARE TOLD, FROM A LACK OF FEDERAL PERSONNEL TO HANDLE THE FLOW OF GOODS AND PEOPLE. DO YOU KNOW THAT PEOPLE COMING FROM MEXICO TO APPLY FOR A B.C.C. ARE BEING GIVEN APPOINTMENTS UNTIL FEBRUARY OF 1977 BEFORE THEY CAN BE PROCESSED? TO ME THIS SOUNDS RIDICULOUS BECAUSE ANYONE COMING INTO THIS COUNTRY ON BUSINESS, BUYING TRIPS, VACATIONS, MEDICAL ATTENTION, ETC., WANT TO CROSS NOW. ON THE OTHER HAND, WHEN WE GO SOUTH INTO MEXICO, WE ARE ISSUED A VISA WITHIN 15 TO 30 MINUTES THAT IS GOOD FOR SIX MONTHS. THIS IS HURTING AND CHOKING THE ECONOMY, NOT ONLY OF NOGALES AND OTHER BORDER TOWNS BUY OF THE WHOLE STATE. I QUESTION THESE EXCUSES OF LACK OF PERSONNEL FOR THIS REASON; IN MAY, 1975, I.N.S. PROCESSED OVER 1400 B.C.C. IN MAY, 1976, THEY PROCESSED AROUND 700, OR JUST ABOUT HALF OF THE PRIOR YEAR. I QUESTION THEM ON

HOW MANY LESS EMPLOYEES THEY HAD IN MAY OF 1976, THEN THEY HAD IN MAY, 1975, AND THEIR ANSWER WAS TWO LESS EMPLOYEES. SO YOU SEE, IT IS HARD TO CONCEIVE THAT IT IS THE LACK OF PERSONNEL THAT IS CAUSING THIS HORRIBLE DELAY IN ALLOWING THESE PEOPLE TO COME INTO THIS COUNTRY TO PROMOTE TRADE. SOME OF OUR BUSINESSES IN NOGALES DEPEND ON UP TO EIGHTY (80%) PERCENT OF THEIR BUSINESS FROM OUR NEIGHBORS TO THE SOUTH. AS AN EXAMPLE, I WILL CITE JUST A FEW FIGURES OF MONIES SPENT IN SOME OF OUR BORDER TOWNS, TUCSON AND PHOENIX. THIS GIVES YOU AN IDEA.

ATTACHMENT 1

IN APRIL OF THIS YEAR, I APPEARED BEFORE THE COMMITTEE ON WAYS AND MEANS IN WASHINGTON, D.C. TO TESTIFY AS TO THE EFFECTS ON OUR ECONOMY IN OUR BORDER DUE TO OUR TWIN PLANT OPERATIONS. I PRESENTED MY ORAL TESTIMONY AND ANSWERED A SERIES OF EIGHT OR NINE QUESTIONS AS FOLLOWS:

ATTACHMENT 2

IN CONCLUSION, I WOULD LIKE TO BRIEFLY GIVE YOU SOME FIGURES IN OUR IMPORTS AND EXPORTS FOR THE FISCAL YEAR ENDING JUNE, 1976.

ATTACHMENT 3

Attachment #1

in my experience are those who already have accounts in dollars with an Arizona bank and that they would pay for such purchases by check or they have already exchanged their peso for dollar currency in their Mexican bank and arrive in Arizona with dollar currency not peso currency, or when they arrive would go to an Arizona bank and exchange a peso check for dollars for which they would do their shopping. That is to say, it is very rare for someone from Mexico who would be shopping in Phoenix to actually want to use peso currency to pay for such purchases.

It is very difficult to get an accurate measure of tourist-only peso expenditures in the State of Arizona. Most recent figures would indicate that Arizona's banks exchanged in dollar value for pesos, of peso checks (drawn on Mexican banks) the following amounts on a monthly basis:

Example

Nogales	Approximately	4,600,000 U.S. dollars
Douglas	Approximately	550,000 U.S. dollars
San Luis and Yuma	Approximately	2,100,000 U.S. dollars
Tucson	Approximately	2,200,000 U.S. dollars
Phoenix	Approximately	400,000 U.S. dollars

These figures include exchanges made by Mexican Nationals directly in Arizona banks as well as deposits of pesos or peso checks from Ariziona's retailers and other commercial establishments which have received them from Mexican Nationals. These figures also, as has been indicated, include not only peso currency but peso checks payable on Mexican banks. And for example, the Nogales figure includes peso checks associated with the very large produce business in Nogales and thereby inflates the figure way above tourist pesos.

It is doubtful that any Mexican National in the Phoenix area has been unable to buy the goods or services he seeks, since the figures do include, not only pesos and peso checks brought in by merchants, but those brought in directly to some branch bank for exchange. It must be assumed therefore that this total reported above is Phoenix's "peso market" total. I just can't imagine a Mexican National who is in the area merely "doing without" even if it would have been more convenient to make an exchange with a retailer than at a bank. Therefore, we have to assume that our current peso-dollar market is, in the Phoenix area, only $400,000 and no promotion of peso exchange would increase that amount. The only thing that would increase that amount would be promotion of Mexican tourists to the Phoenix area.

Attachment #2

ATTACHMENT NO. 1

Name of City: Nogales, Arizona

Name of Person Giving Information: Arthur M. Doan, Mayor

1. How many U. S. jobs are created in your city as a result of all the various plants located across the border in Mexico?

A. Using the period from 1965-1975 the following has been achieved: Employment has increased 43%

2. What is the economic impact in your city because of Twin Plant locations?

A. Again, using the period 1965-1975 the following has been achieved:
1. Retail sales have increased 127%
2. Population has increased 30%
3. City Sales Tax revenue has increased 116%

3. What is the volume of cash flow through the banks in U. S. border city because of Twin Plant locations?

A. 1. Valley National Bank increased 25% to $93,000,000.00 per year.
2. Arizona Bank (Not available at the present time)
3. First National Bank (Not available at the present time)

4. What are your local purchases of services and material in the U. S. border city by Twin Plaints in Mexico?

A. $10,000,000.00 per year

5. How much money is spent on transportation?

A. $3,000,000.00 per year

6. How many plant Executives live in your city and run plants in Mexico?

A. 84

Attachment No. 1, Page 2

7. What do you estimate to be the dollars spent in your city by Mexican employees of Twin Plants?

A. $12,630.097 per year

8. What is the number of out of state Executives coming in to visit Twin Plant companies?

A. Estimated 3,000 visits per year

9. What is the estimated payroll in Nogales, Sonora?

A. in 1975, $21,600,000.00

Date June, 1976

Attachment #3

	This date R.R. Imports	Total to Date FY
TOTAL R.R. CARS	120	1495
	Truck Imports This Date	TOTAL TO DATE FY
TOTAL TRUCKS	3195	49,291
	Entries This date	TOTAL TO DATE FY
FREE C.E.	462	3795
DUTIABLE C.E.	2562	31,644
WHSE & REWHSE	49	416
WHSE WITHDRAWALS		
I.T., T&E INTRANSIT IMMED. EXPORT	540	14,728
MAIL		
INFORMAL 5119-A	87	2113
FREE BAG. CF-6059	36	424
DUTY BAG. CF-6059	57	881
TIB & OTHER INFORMALS	44	722
TOTAL ENTRIES		
	This date EXPORTATIONS	TOTAL TO DATE FY
NOTICE OF EXPORT		
EXPORT DECS. FILED		
Duties	TRANSACTIONS This Date	TOTAL TO DATE FY
COLLECTIONS	2,705,963.74	27,481,102,32
VALUE OF IMPORTS	40,992,000.00	357,181,667.00
VALUE OF EXPORTS	8,205,978.00	164,995,473.00

$1,000,000.00 wk for Month,

Persons processed - July 1, 1975 thru June 30, 1976 6,367,140

Representative LONG. Mrs. Olivarez, as I said earlier, we are pleased to have you here. We know of your background and your expertise and how you are today working very closely on this subject matter.

Please proceed in your own way.

STATEMENT OF GRACIELA OLIVAREZ, STATE PLANNING OFFICER, STATE OF NEW MEXICO

Mrs. OLIVAREZ. Thank you very much, Mr. Chairman. I would like to point out that for those of us like Governor Castro who have been trying to work on this problem for the last 20 years and have very recently given up, the fact that this meeting—this hearing is being conducted has more or less restored our faith in our own system. I recall 20 years ago, we submitted a Marshall plan for the northern part of Mexico. The response we got from Washington was "we should be aware the Marshall plan was able to work in Japan and West Germany because the level of education in those two countries was superior to that we would find in Mexico and it was ridiculous to even suggest a Marshall plan for Mexico."

I mention that because these statements were made by people who knew absolutely nothing about Mexico and who had their own biases and were in a position of making decisions that we discovered were quite detrimental. I think a Marshall plan would have worked 20 years ago, but as you heard Senator Bentsen say, relations between the two countries are at such a low level that the other day one of President Lopez Portillo's assistants said, "Don't worry, Grace, there is no place to go but up, because relations are so bad at this point."

Let me point out that the recent and dramatic devaluations of the Mexican peso have actually highlighted and exacerbated a number of problems which had been brewing all along and which many of us for many years were aware were brewing. Apart from the severe and obvious economic impact of the crises, other related and equally important matters need to be considered in order to present as complete a picture as possible of current socioeconomic conditions in Mexico.

Testimony has already been given describing in econometric terms the magnitude of the dilemma. And while it may be possible to debate points of methodology and statistical accuracy, the clear fact remains that Mexico's economic "miracle" of the past two decades now looks more like Mexico's economic nightmare. This portends serious consequences for social development and political tranquillity, at least in the short run, although the argument can be made that fairly broad unity will be achieved in a common effort to restore the economy to previous levels.

Mr. Chairman, I think a few words are in order to put into proper historic and political context the current crisis and to give perspective to the kinds of alternative responses available to the United States. As has been pointed out elsewhere, Mexican social and economic policies have traditionally been couched in the rhetoric of the "permanent" revolution.

It must be understood, however, that revolution in the Mexican sense does not mean continuous social and political upheaval. Instead, it may best be interpreted as a commitment—to varying degrees, depending who is President—to social and economic development. This is important to recognize because it permits more accurate appreciation of the kinds of policies which have been pursued by successive Mexican administrations.

At the outset, it should be reemphasized that the economic and social dilemmas currently confronting Mexico have a direct impact on the United States.

We used to worry about communism being 90 miles from our border. We have seen serious developments in Mexico and they are not 90 miles from our border. We have been so concerned about socialism and communism around the world and have never paid attention to our neighbors south of us.

Mexico as well as the remainder of Latin America, resent what they consider to be interference in their internal affairs which smacks of imperialism, new or old. This does not mean the Mexicans would not be willing to discuss issues of mutual concern and enter into joint arrangement to solve common problems. It does mean that the United States must approach Mexico as a peer, not as a patron. After all, Mexico is a leading nation in the world and looked upon by many Latin, African, and Asian countries as a model to emulate.

Rather than read all of my testimony, Mr. Chairman, since you have a copy, let me just make some suggested solutions. Mexico has traditionally been heavily dependent on U.S. tourism for its foreign exchange earnings. The physical beauty of the country, its proximity and accessibility, its political stability and a very active Mexican campaign for increased tourist trade over the years have made that industry one of the most important sources for jobs and revenue. Unfortunately, former President Echevarria's bid for leadership of the third world and Mexico's subsequent vote in the United Nations supporting the resolution equating Zionism with racism resulted in the boycott of Mexico by Jewish tourists. By itself, this had a noticeable impact on the important tourism industry. But adding to it was the decision by the United States to limit tax deductibility of funds spent for business and professional conferences held outside the country—and Mexico's short-lived attempt to reduce from 180 to 30 days the limit tourists could stay without renewing their visas, a time-consuming and frequently costly nuisance.

Tourism, however, has not been a one-way street. A considerable number of Mexicans come to this country as well, especially along the border areas, to purchase goods and services. Many Mexicans have family in this country whom they visit frequently; many others come to the United States to buy goods which are not available in Mexico; and yet others cross the frontier for a wide variety of reasons ranging from medical needs to sightseeing.

The point is that while Mexico attracts millions in American tourist dollars every year, that outflow is partially offset by the millions spent by Mexicans visiting the United States. With the advent of the peso devaluation, that trade has been sharply curtailed, and, of course, felt more acutely along the border than elsewhere. Just in New Mexico alone, for example, losses in retail trade were reported from a low of 5 percent, in discount stores, to a high of 33 percent in sales of farm equipment.

Increased production of food would be of benefit not only to Mexicans, but to the United States as well. What is more, Mexico would stand to profit from expanding its food production by substituting its own food for that which it is currently importing in growing amounts. Beyond that, Mexico as well as the United States will no doubt be looking toward much of the rest of the world as a potential market for crops and livestock. Development of the rural sector would have a beneficial byproduct as well. It would help to mitigate the flow of campesinos to already overcrowded cities. It would also add jobs to a depressed labor market and even make a contribution to overcoming agrarian unrest if carried out carefully. Steps which the United States could take in this juncture include, first, establishment in conjunction with the Government of Mexico of mutually acceptable policies governing importation and exportation of food.

The policies should, of course, be consistent with the objectives and needs of each nation. But, also, more important is a need for predictability and constancy in the execution of policy.

Second: Discuss frankly the possibility of increased United States investment in Mexican agricultural production, perhaps requesting relaxation to some degree and for a period of specified time of present investment constraints under Mexican law.

In the area of migration, the current crisis did not of course, bring with it the problem of illegal migration to the United States. This has been a persistent dilemma over the past few centuries. The peso devaluation did, however, exacerbate the issue in two ways:

One: It probably has stimulated urbanization along the border, thereby increasing the pool of potential undocumented laborers living within easy reach of the United States.

Two: It has no doubt served as a strong push factor to enter the United States for those who may not have seriously considered such a course of action. While clamping down effectively on illegal migration would require Mexican participation, it may well be that Mexico would resist such cooperation during the present economic crisis. Rather than taking police types of actions to deal with the problem, it might be wiser and more effective to seek different and new approaches including the request of Mexico for permission to relocate, also, the matadores into the interior further away from the border in those Mexican states which rebut the frontier.

Third: Revising current U.S. policy and law with respect to status and treatment of aliens. Traditional methods have failed consistently. Aside from constructing a Berlin Wall west, it is unlikely that periodic busts or increased border patrols will have much impact in preventing determined illegal aliens from entering the country.

One possible alternative would be a limited open-border policy; that is the immigration quota from Mexico would simply be lifted but the entrant would have to show proof of promised employment or income guarantee. Second: They would not be eligible for welfare or public assistance until a certain period of time lapsed. Third: They would be held responsible like any legal resident to pay income taxes, enroll in social security and obey other laws. Part of the rationale of the above is that in an illegal status, a migrant has no recourse to legal protection when his rights are violated. Equally important is the fact that the United loses a great deal of revenue from working of illegal aliens who see no reason for insisting that their employer take out their income taxes. Unscrupulous empolyers do not pay income taxes either, although in many instances, they are deducted from the employee.

Fourth: There is little the United States can do or should do with respect to agrarian unrest in Mexico. That is a problem that will have to be resolved by the Mexicans themselves without any kind of outside intervention. If the proposition that an economically strong Mexico is in the best interests of the United States is accepted, then Congress and the executive should act swiftly upon some of the policy alternatives which have been suggested in this and other testimony.

Helping Mexico to recover as rapidly as possible will be the major way in which the United States can contribute to eventual stability and the elimination of restiveness in the rural areas.

Fifth: I think that much needs to be done in the area of contraband. People call it smuggling because it is only a little bit more respectable than contraband. The volume and variety of goods smuggled into Mexico not only take their economic toll but have serious political ramifications as well.

It is clearly in the best interests of Mexico and the United States to take more vigorous measures in reducing if not eventually eliminating arms and drug smuggling. As part of the effort, it would be appropriate to address the overall issue of contraband including U.S. products which are illegally imported and sold freely across the border at the expense of United States and Mexican tax revenues rather than mounting unilateral efforts which are repugnant to Mexico's self-esteem and sensibility such as Project Intercept. It would be wiser for the United States to take the initiative to begin serious high-level discussions on not only contraband but the whole range of problems and interest. Finally, Mr. Chairman, it is worth noting that the time to launch new and realistic cooperative efforts between Mexico and the United States could not be more propitious.

Each nation has just inaugurated a new President. What is more, Jimmy Carter and President Portillo appear to be firmly committed to healing the wounds in the United States-Mexican relationship which were inflicted earlier in the decade.

Taking immediate and positive steps forward to initiate a new era of cooperation would serve as an unequivocal signal to Mexico that the United States has not forgotten the special relationship which had existed between the two neighbors and which we are ready to resurrect in the spirit of equal partnership and harmony.

In essense, both nations need to get to know each other better because our knowledge of each other has deteriorated greatly in the last two decades.

Thank you very much.

Representative LONG. Thank you Mrs. Olivarez. I certainly agree the two countries need to know each other better. I think neither recognizes the changes that have occurred in the other country in the last 20 years. This is one of the things we are attempting to do here—as they call it in the women's movement—to raise the level of consciousness. At a very minimum, we are hoping to be able to accomplish this.

Without objection, your prepared statement will be printed in the hearing record.

[The prepared statement of Mrs. Olivarez follows:]

PREPARED STATEMENT OF GRACIELA OLIVAREZ

Some Socioeconomic and Political Implications of the Devaluation of the Mexican Peso

The recent and dramatic devealuations of the Mexican peso have highlighted and exacerbated a number of problems which had been brewing all along. Apart from the severe and obvious economic impact of the crisis, other related and equally important matters need to be considered in order to present as complete a picture as possible of current socioeconomic conditions in Mexico. Testimony has already been given describing in econometric terms the magnitude of the dilemma. And while it may be possible to debate points of methodology and statistical accuracy, the clear fact remains that Mexico's economic "miracle" of the past two decades now looks more like Mexico's economic nightmare. This portends serious consequences for social development and political transquility, at least in the short run, although the argument can be made that fairly broad unity will be achieved in a common effort to restore the economy to previous levels. While it is safe to say the Mexican republic will survive, it must be understood that the crisis is deep and has direct implications for the United States.

In an effort to comprehend what has happened and why, and to formulate judicious U.S. policy responses, the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee is holding hearings on "Recent Developments in Mexico and their Economic Implications for the United States." Rather than present an accounting of the unfortunate statistical details of the Mexican economic crisis, which the members of the Subcommittee have already seen, I will direct my remarks to the socioeconomic and political ramifications of the peso devaluation. I will also offer a series of suggested policy alternatives which Congress, in concert with the Executive, may want to consider. These suggestions, it should be understood, will require refinement. But they should serve as a rapid beginning for thoughtful debate and action.

BACKGROUND

A few words are in order to put into proper historic and political context the current crisis and to give perspective to the kinds of alternative responses available to the United States. As has been poointed out elsewhere, Mexican social and economic policies have traditionally been couched in the rhetoric of the "permanent" revolution. It must be understood, however, that revolution in the Mexican sense does not mean continuous social and political upheaval. Instead, it may best be interpreted as a commitment—to varying degrees, depending who is president—to social and economic development. This is important to recognize because it permits more acccurate appreciation of the kinds of policies which have been pursued by successive Mexican administrations.

Realizing the importance of an active private sector, sustained foreign investments, and a stable political climate for economic growth, on the one hand, and the need for more equity in income distribution and gerater social services in the public sector, on the other, Mexican leaders have had to maintain a precarious balance between the competing constituencies. They have managed to do this with remarkable agility, so far, within the framework of their corporate "one party democracy." In part their success has been due to periodic revolutionary gestures to satisfy the marginal masses, students, and leftist intellectuals; in part it may be attributed to the establishment of policies favorable to business and economic growth. The Mexicans are aware that effective resources redistribution depends in large measure on continued capital accumulation and an expanding economy. Unfortunately, excessive public spending, growing consumerism, inflation, a world-wide recession, a serious balance of trade deficit and other exogenous and internal pressures combined finally to bring a swift halt to Mexican economic progress.

If the problem were one only of restoring the economy, Mexico's crisis would be less severe. Instead, the government will have to proceed down a careful path toward recovery, taking great care not to alienate irrevocably any major sector. Fortunately, Mexico's history over the past forty years has demonstrated the government's and party's) capacity to withstand and survive such crises. Lest this sound too optimistic or unrealistic an appraisal for the future, it should be stressed that smooth recovery will not be easy and several latent political hazards stand in the way.

Mexico has long been considered by political scientists to be one of three Latin American nations ever to have experienced an authentic revolution—in contradistinction to the frequent revolts and *coups d'etat* which have characterized politics in most Central and South American countries. Since that revolution, earlier in the century, debates have periodically centered about the issue whether or not the revolution is "dead." In response to such criticism from the left affirming that proposition, and for other reasons as well, some Mexican presidents—notably Cardenas, Lopez Mateos and Echeverria—have taken decisive steps to show that the revolutionary spirit still lives. Thus, interpretations of economic policy decisions must be made within the context of this political reality in order to make sense. Using pure economic "logic," as it were, would not shed full light on the problems currently faced by Mexico, nor on the steps Mexico will take to resolve its crisis.

THE PROBLEMS

At the outset it should be re-emphasized that the economic and social dilemmas currently confronting Mexico have a direct impact on the United States. That is to say, Mexico's problems are ours as well. However, care should be taken to avoid the mistakes of the past in formulating new policies and programs to deal with the present crisis. Mexico, as well as the remainder of Latin America, resent what they consider to be interference in their internal affairs which smacks of imperialism, new or old. This does not mean the Mexicans would not be willing to discuss issues of mutual concern and enter into joint arrangement to solve common problems. It does means that the U.S. must approach Mexico as a peer, not as a *patron*. Afterall, Mexico is a leading nation in the world and looked upon by many Latin, African and Asian countries as a model to emulate.

Tourism

Mexico has traditionally been heavily dependent on U.S. tourism for its foreign exchange earnings. The physical beauty of the country, its proximity and accessibility, its political stability and a very active Mexican campaign for increased tourist trade over the year have made that industry one of the most important sources for jobs and revenue. Unfortunately, former president Echeverria's bid for leadership of the Third World and Mexico's subsequent vote in the United Nations supporting the resolution equating Zionism with racism resulted in the boycott of Mexico by Jewish tourists. By itself this had a noticeable impact on the important tourism industry. But adding to it was the decision by the U.S. to limit tax deductibility of funds spent for business and professional conferences held outside the country—and Mexico's short-lived attempt to reduce from 180 to 30 days the limit tourists could stay without renewing their visas, a time-consuming and frequently costly nuisance.

Tourism, however, has not been a one-way street. A considerable number of Mexicans come to this country as well, especially along the border areas, to purchase goods and services. Many Mexicans have family in this country whom they visit frequently; many others come to the U.S. to buy goods which are not available in Mexico; and yet others cross the frontier for a wide variety of reasons ranging from medical needs to sightseeing. The point is that while Mexico attracts millions in American tourist dollars every year, that outflow is partially offset by the millions spent by Mexicans visiting the U.S. With the advent of the peso devaluation, that trade has been sharply curtailed, and, of course, felt more acutely along the border than elsewhere. Just in New Mexico alone, for example, losses in retail trade were reported from a low of 5 percent, in discount stores, to a high of 33 percent in sales of farm equipment.

Food

Few North Americans probably realize that many of their winter fruits and vegetables are imported from Mexico. Ironically, however, in its drive for modernization and industrialization, the Mexican government has tended to ignore the agricultural sector. This has been due partly—at least in its relations with the U.S.—to vagaries in American foreign policy. That is, in order for Mexicans to put more emphasis on crop and livestock production for export to the U.S., they must be assured of greater predictability and consistency in policy on our side. This is especially critical not only for the development of an unrealized potential in agricultural production, but also as it relates to migration patterns. Development of the rural sector, spurned in part by favorable U.S. policy, would tend to reduce present high rates of urbanization, particularly the flow to border cities and the subsequent spill over into the U.S. of undocumented workers).

Apart from that, Mexico may eventually consider focussing greater attention on expanding agricultural production in view of global food requirements. Revenues from crops and livestock, coupled with successful exploitation of reportedly huge oil reserves, may prove to be an attractive way to achieve full economic recovery and even further development in the future. But these are still longer term solutions, although it is possible to begin now to gear up much more activity in the rural sector.

Migration

It has been predicted that one of the most immediate and visible consequences of the peso devaluation and crippling effect it has had on the Mexican economy will be a considerable increase in an already substantial rate of illegal immigration into the U.S. While estimates of the numbers of illegal Mexican aliens in this country vary widely (and wildly), it is reasonable to suggest that they are in the seven figure range. The economic crisis has been felt throughout the entire republic, but perhaps most severely in the rural areas and small towns. Even during periods of relative prosperity the combination of push and pull factors attracts large numbers of rural dwellers to urban centers. During times of economic depression it is likely that this movement will be accelerated, at least initially. Cities along the frontier will especially feel the crunch, as thousands of unemployed and underemployed workers seek economic relief in the farms and factories across the border in the U.S.

Illegal immigration into the U.S. from Mexico has for the past few decades been a sore spot between the two nations. Mexican sensitivity toward the issue was particularly heightened during the nationalistic regime of former president Echevveria—as part of a general cooling in relationships between Mexico and the U.S. during his *sexenio*. Mexico has rarely taken much of an initiative to stem the tide of illegal entrants into the U.S. Indeed, the industrial "colossus to the north" has served as a convenient escape valve for labor surpluses. However, the U.S. is not entirely blameless either. At times, notably under the two *bracero* agreements, the U.S. has encouraged immigration of cheap labor from Mexico. And local, state and federal officials have frequently been conveniently lax in apprehending undocumented workers until they have finished their jobs. But as we are facing our own economic woes, too, there is little need or desire for Mexican workers. This is another example, incidentally, of "on-again-off-again" U.S. policy.

Agrarian Unrest

The cry for land reform in Latin America has been a cornerstone for revolutionary movements. Mexico had already achieved a very limited agrarian reform as early as the last century. The *ejilo* system which was established after the revolution evolved into a complex form of rights to land tenure and its usufruct which has proven to be a mixed blessing. One the one hand it has helped to retain peasant sector loyalty to party and government—albeit somewhat tenuously—and has actually resulted in significant redistribution and expropriation of land. On the other hand, it has not produced any real improvement in the quality of life for *campesinos*. Its economic value has been consistently challenged. In a sense, land reform has been more symbolic than real (in actually improving significantly peasant income), although it is a powerful symbol to those who support and oppose it. Former president Echeverria's eleventh hour gesture to the Mexican revolutionary spirit, in the form of the expropriation and redistribution of tens of thousands of hectares in northern Mexico may have been somewhat bizarre, but it did occasion violent reactions and rekindle for the moment the struggle over land tenure. This particular instance is important for two reasons. First, Echeverria expropriated choice land rather than the marginally tillable acreage distributed by his predecessors. Second, it was interpreted as a signal by land starved peasants to push their way forcefully on to land held by neo-*hacendados*. It also forced the government to call out troops to counteract the squatters. Had this occurred during an era of relative prosperity it would have been troublesome enough. But to have happened in a time of economic hardship it will take even longer to resolve and will be a clear challenge to the ability of Lopez Portillo to walk the tightrope between *campesino* and *hacendado*. Lest this sound too dramatic. one should remember the increase in arms being smuggled into northern Mexico.

Agrarian unrest reveals not only the perennial longing by peasants to have their own parcel of land. It also is indicative of the general economic malaise plaguing Mexico. As the economic squeeze becomes tighter and prices and unemployment rise, other reactions will take place—some of which have already been discussed such as a jump in illegal border crossings, a probable turn toward capital accumulation at the exepnse of income distribution, and a precipitous decline, at least initially, of economic activity along the border.

Contraband

The two items of contraband which have received greatest attention in the press and government are illicit drugs and weapons. While figures are sketchy, it is clear that large scale smuggling of "hard" and "soft" drugs into the U.S. is and has been taking place for some time. In addition, there has been a recent rise in the number of small and medium size weapons and ammunition illegally entering Mexico from the U.S. Some of the imported weaponry can be traced directly to drug rings who try to protect themselves from police and military attacks against their operations. Other arms are reported to be destined for revolutionary groups, although former president Echeverria seems to have been by and large successful in his efforts to crush guerilla movements. Another dimension to smuggling, not nearly as colorful, is illegal exportation into Mexico of U.S. goods such as cigarettes, liquor and other luxury items. Few if any statistics are available by which to determine the volume of this traffic, but it is necessary to point to it as an economic problem. Obviously, it results in one-sided competition with legitimately imported products and deprives both countries of revenues.

SUGGESTED STEPS FOR SOLUTIONS

Tourism

A great deal of the effort to restore to previous levels the volume of tourism from the U.S. will depend on future Mexican policy. Certainly, actions such as the Mexican vote on the U.N. resolution on Zionism will not be helpful. However, these are decisions which only Mexico can and should make. On the other side of the coin, it would be in the clear interests of the U.S. to take concrete steps now toward promoting increased tourist exchange between the two nations. Two alternatives are available initially:

1. Suspend indefinitely—or even eliminate—the provision in the law which limits the amount of tax free goods which may be transported into the U.S. from Mexico and which are produced in Mexico. Failing that, certain categories of goods being imported by tourists for their personal use could be made exempt. It cannot be stressed too strongly that a Mexican economy on the road to recovery is in the best interests of *both* nations. Indeed, if our much touted "special relationship" with Mexico actually exists, this kind of action would be an affirmation of that unique bond.

2. Suspend or even eliminate the provision in the U.S. Tax Code which limits the amount of the deduction which can be taken by citizens and corporations attending and holding conferences abroad—i.e., Mexico.

Food

Increased production of food in Mexico would be of benefit not only to that nation but to the U.S. corporations and individuals who have invested in the Mexican agricultural sector and who pay taxes here. What is more, Mexico would stand to profit from expanding its food production by substituting its own food for that which it is currently importing in growing amounts. Beyond that, Mexico as well as the United States will no doubt be looking toward much of the rest of the world as a potential market for crops and livestock. Development of the rural sector would have a beneficial by-product as well. It would help to mitigate the flow of *campesinos* to already overcrowded cities. It would also add jobs to a depressed labor market. And it could even make a contribution to overcoming agrarian unrest, if carried out carefully. (The reverse—i.e., increased agrarian discontent—could also result. Mexico clearly will have to proceed cautiously down this road to development and recovery.) Steps which the U.S. could take at this juncture include:

1. Establish in conjunction with the Government of Mexico mutually acceptable policies governing importation and exportation of food. The policies should, of course, be consistent with the objectives and needs of each nation. But almost more important is the need for predictability and constancy in the execution of policy.

2. Discuss frankly the possibility of increased U.S. investment in Mexican agricultural production, perhaps requesting relaxation to some degree and for a period of specified time present investment constraints under Mexican law.

Migration

The current economic crisis in Mexico did not, of course, bring with it the problem of illegal migration to the U.S. This has been a persistent dilemma over the past few decades. The peso devaluation did, however, exacerbate the issue in two ways. One, it probably has stimulated urbanization along the frontier, thereby increasing the pool of potential undocumented laborers living within easy reach of the U.S. Two, it has no doubt served as a strong push factor to enter the U.S. for those who may not have seriously considered such a course of action before. While clamping down effectively on illegal migration would require Mexican participation, it may well be that Mexico will resist such cooperation during the present economic crisis. Rather than taking police types of action to deal with the problem anyway, it may be wiser and more effective to seek different and new approaches, including:

1. Requesting permission to relocate *maquiladoras* into the interior, at least further away from the border in those Mexican states which abut the frontier. This would help draw people away from the border area as new jobs open up.

2. Revising current U.S. policy and law with respect to treatment and status of illegal Mexican aliens. Traditional methods of dealing with the problem of undocumented workers have failed consistently. Aside from constructing a Berlin Wall West, it is unlikely that periodic "busts" or increased border patrols will have much impact in preventing determined "illegals" from gaining entry into the country. On the contrary, the record shows repeat offenses to be very common. What, then, is to be the solution?

One possible alternative, at least worthy of a trial period, would be a "limited" open border policy. That is, the immigration quota for Mexico would simply be lifted. However, entrants would have to conform to certain requirements. First, they would have to show proof of promised employment or income guarantee. Second, they would not be eligible for welfare or public assistance until a certain period of time—to be determined—lapsed. Third, they would be held responsible like any other legal resident or citizen to pay taxes, enroll in social security and obey all other laws. Failure to comply with any of the above would constitute a breach of the agreement under which they enter, and would result in their deportation. Of course there will be enforcement problems, just as there are now. And much greater refinement of the details is necessary. But past attempts to control illegal immigration have failed completely. It is time to try something new.

Part of the rationale behind suggesting the above is that in an illegal status a migrant has no recourse to legal protection when his rights are violated—if he wants to remain undetected in the country. Equally important is the fact that the U.S. loses a great deal of revenue from working illegal aliens who see no reason whatsoever for paying taxes. Conversely, unscrupulous employers do not pay taxes either—such as those for social security. Another reason for experimenting with the suggested approach is that easy access to undocumented workers allows employes to depress the wage market. This results in unfair competition for U.S. workers. If there were no "illegals," and employers were denied the leverage provided to them by being able to threaten to turn over the undocumented worker to the INS, competitive wages would have to be paid, as well as social security and other taxes. This in turn could result in a competition in the labor market which would tend to keep out aliens who are generally less skilled than their counterparts in the U.S. Once again, it will require sufficient enforcement to make this approach succeed. But rather than concentrating on enforcing laws against illegal entrants, the INS and other authorities would be freer to pursue employers breaking the law.

Agrarian Unrest

There is little the United States can or should do with respect to agrarian unrest in Mexico. That is a problem which will have to be resolved by the Mexicans themselves, without any kind of outside intervention. If the proposition that an economically strong Mexico is in the best interests of the U.S. is accepted, then Congress and the Executive should act swiftly on some of the policy alternatives which have been suggested in this and other testimony. Helping Mexico to recover as rapidly as possible will be the major way in which the U.S. can contribute to eventual stability and the elimination of restiveness in the rural areas.

Contraband

The volume and variety of goods smuggled into Mexico not only take their economic toll, but have direct and serious social and political ramifications as well. It is clearly in the best interests of both Mexico and the United States to take more vigorous measures in reducing—if not eventually eliminating—arms and drug smuggling especially. As a part of the effort, it would be appropriate to address the overall issue of contraband, including U.S. products which are illegally imported and sold freely across the border at the expense of U.S. and Mexican tax revenues. Rather than mouting unilateral efforts which are repugnent to Mexican self-esteem and sensibilities; such as Project Intercept, it would be wiser for the U.S. to take the initiative to begin serious high level discussions on not only contraband, but of the entire range of problems and interests which are shared by the two nations. This could be achieved through the establishment of a permanent U.S.-Mexico commission. Care should be exercised, however, to insure that problems are not just debated, but that action is taken. Too often commissions of this nature deteriorate into symbols of superficial cooperation, accomplishing little more than adding another stop in the diplomatic cocktail circuit. The problems facing Mexico and the U.S. are far too serious to be allowed to languish without remedy.

Finally, it is worth noting that the timing to launch new and realistic cooperative efforts between Mexico and the United States could not be more propitious. Each nation has just inaugurated a new president. What is more, both Jimmy Carter and Jose Lopez Portillo appear to be firmly committed to healing the wounds in U.S.-Mexico relationships which were inflicted earlier in the decade. Taking immediate and positive steps forward to initiate a new era of cooperation would serve as an unequivocal signal to Mexico that the U.S. has not forgotten the special relationship which had existed between the two neighbors and which we are ready to resurrect in the spirit of equal partnership and harmony.

Representative LONG. Our next witness is Calvin P. Blair, who is a professor of resources and international business at the University of Texas.

Professor, we are pleased to have you.

STATEMENT OF CALVIN P. BLAIR, PROFESSOR OF RESOURCES AND INTERNATIONAL BUSINESS, DEPARTMENT OF MARKETING ADMINISTRATION, THE UNIVERSITY OF TEXAS AT AUSTIN

Mr. BLAIR. Thank you, Mr. Chairman.

It is a pleasure to be able to testify before your subcommittee. I am very pleased that the focus of these hearings is on Mexico today.

I submitted a fairly complex prepared statement and I won't bother you with repeating everything. I would like to summarize the key features. It is obvious that my principal concern has been the problem of interdependence between Mexico and the United States but with emphasis on the grossly one-sided nature of it.

Mexico's dependence upon us is much greater than the reciprocal dependence we have upon them. I think I will skip over the macroeconomic analysis and devaluation of the peso.

I will be glad to respond to any inquiry in the question and answer period. I would like to focus attention on the interdependence relationship.

It is profoundly complex. Mexico is especially dependent upon us in ways that create very sensitive feelings on the part of Mexican nationals and create the grounds for diversifying sources of trade, investment, and technology and for pursuing, if possible, an independent Mexican stand on international relations.

Mexico, as most of us know, sells about 60 percent of its merchandise exports to us and buys about 62 percent of its imports from that source.

Mexican business firms also pay over $100 million a year for U.S. patents and other technology. They pay another $150 million in profits transferred to U.S. direct investors and nearly $400 million per year in interest on loans and credits from U.S. sources.

Mexico relies on U.S. customers for 70 percent of their tourist and border sales and make their reciprocal expenditures here almost completely—nearly 100 percent.

United States investors own about 72 percent of all direct foreign investment in Mexico. Ninety percent of Mexico's externally funded debt is in U.S. dollars and 90 percent of the central banks' foreign exchange reserves is in our money.

That gives us a pretty clear, succinct picture of Mexico's extreme dependence.

There are also a wide variety, Mr. Chairman and members of the subcommittee, a wide variety of specific ways in which Mexican operations are susceptible to the vagaries of our policy, running all the way from the salinity of the Colorado River, which has been a sore point for a long time, to the size of tomato imports.

Mexico lives, I might add, in some apprehension that U.S. policy will take a turn for the worse, that in trying to solve our own problems of income and employment, we may take measures that will depress Mexican trade, particularly protectionist measures against Mexican imports and then a sudden clampdown on migrant labor, both legal and illegal.

If Mexico didn't enjoy a surplus on its tourist trade with us, and if it weren't for the receipt of private unilateral remittances of more than $100 million per year—much of which I surmise is money sent home by illegal migrants—Mexico's current account deficit with us would have been about $300 million larger than the $2.2 billion in 1975, the last year for which we have good figures.

The reciprocal dependence of the United States on Mexico is relatively slight in the aggregate but is surprisingly important in a few key respects.

Mexico is our fourth most important export customer and our sixth most important source of import supplies.

However, our trade surplus with Mexico accounted for nearly one-fourth of the total U.S. trade surplus of $9 billion in 1975, and the United States has run a large merchandise trade surplus with Mexico for many consecutive years, even when we had large total deficits, for example, in 1971, 1972, and 1974.

As for tourism, only Canada ranks in Mexico's class.

In recent years our tourists did manage to spend in all of Western Europe, approximately the same amount they spent in Mexico; but reciprocal sales to European travellers are not even half those that Mexican visitors purchase from us.

On what we call a microeconomic level, we have a well-known phenomenon: Pairs of sister cities all along our border from Brownsville-Matamoros on the east to San Diego-Tijuana on the west exist in what I call a border symbiosis in which each depends upon the other in certain ways.

Whatever happens on one side, good or bad, has multiple repercussions on the other. We do have a very unusual situation.

The incomes on the Mexican side, however, are high relative to the rest of Mexico, while on the U.S. side, as Senator Bentsen pointed out, our own citizens in the border sections have income drawn from a much lower base than our national average.

Relatively high incomes on the Mexican border serve as a very strong attraction to immigration from areas of lesser economic opportunity.

The number of respondents is always greater in excess of the number of jobs, so the migration continues northward legally and illegally. That process is facilitated somewhat by a network of family and friendship relations in U.S. border cities and in internal areas such as Los Angeles, San Antonio, and Chicago.

An economist would point out that the migration of Mexican labor to the United States is the epitome of economic rationality.

The income and opportunity differentials are so great that only a garrison state could stop the flow. No one knows how many illegal migrants there are, but one hears guesses on both sides of the border ranging from 1 to 6 million.

Such workers make large positive contributions to U.S. output and significant positive contributions to Mexico's balance of payments.

They also make the reduction of unemployment among our own low-income residents a larger task, and the elastic supply of labor clearly depresses wages.

On December 1, Mexico inaugurated a new President, Jose Lopez Portillo, who has changed what I call a matter of style. I think those who think Mexican presidents are vastly different need to study Mexico's policies more carefully.

There is a great deal of continuity across the various regimes. Lopez Portillo clearly has a different style of operations.

He began early in the game by incorporating business enterprises into his planning scheme. He has adopted budget policies and wage
There is a great deal of continuity across the various regimes.
inflation.

He will continue, however, to emphasize an entrepreneurial state which focuses upon educating its people and investing heavily in the key sectors of industry: energy, steel, transportation, and workers' housing.

His program places renewed emphasis upon the creation of industrial jobs; and his government signed 10 accords with 140 business firms in the areas of petrochemicals, capital goods, in-bond plants, tourism, fats and oils, cement, automobile parts and assemblly, and mining.

Of special interest is the accord with the industria maquiladora, as the in-bond assembly plants are known. It calls for the creation of 175,000 new jobs over his 6-year period, the investment of about 10.5 billion Mexican pesos, and an increase in exports from the $480 million estimated for 1975 to a target level of $1.5 billion by 1982.

In-bond plants are expected to increase on the Mexican border and in the interior by the rate of about 150 per year.

The Mexican Government has already announced that it will plan fiscal incentives, and it promises to negotiate with the U.S. Government to try to improve prospects for the reexport of finished textiles, which have been a particularly sensitive point in Mexico.

The floating peso has changed abruptly all relative costs and prices. U.S. goods suddenly became in the first instance about 60 percent higher, in pesos, and Mexican goods 37.5 percent cheaper in dollars.

Costs in the in-bond plants are competitive once again; and since U.S. demand is recovering reasonably well, the expansion program on the Mexican border is, I think, likely to succeed, unless the United States eliminates the special tariff provisions which permit the twin plant industry to exist at all.

A great deal more than in-bond assembly is involved. The Mexican Government has long hoped to incorporate into its national economy its own border cities, whose isolation from Mexican producers and whose proximity to rich and cheap sources of U.S. goods has made them almost like foreign areas. Imagine if you can a country in which a whole string of cities is like a foreign area. You can't get at it with your own goods and services because the foreign sources of supply are closer and cheaper.

The Mexican Government has an intersecretarial commission to stimulate planning for the development of the northern border. It has public credits and tax incentives. I think it is about to announce that plan right now to capture border markets, just as if they were export markets.

Mexican businessmen along the border have already noted an increase in sales of foodstuffs and clothing and a reduction of competition from contraband.

Significant new investments are being made, or being planned, for retail trade in goods of Mexican origin.

All of us know the other side of that story, in which border cities have suffered declines in retail trade. I did mention many of them had high sales in July and August, as Mexicans spent in anticipation of the peso depreciation; so the 1976 trade year may not have suffered very much; but cost and price adjustments will obviously have to be made.

In some cities, the equivalent of a 10 percent price reduction—I said 20 in my prepared statement, but that is a typographical error—has already taken place with the decision of merchants to accept pesos at 18 per dollar instead of 20.

Notice that that amounts to a pricing policy that discriminates in favor of Mexicans and against our own local residents and creates the problem of identifying who is really a Mexican. It is a very difficult policy to pursue. I don't think it can last very long.

The general changes in prices and costs will in fact have to take place. The efforts of Mexican producers, however, will certainly take time. The variety and quality of U.S. goods is very hard to match and impossible to match over a short run. If Mexico is successful in border development, the increase in Mexican income will promote a good deal of trade on the U.S. side as well. The outlook is that Mexico may reduce but not eliminate its trade deficit with us. One of the major problems of the Mexican economy is its current heavy degree of dependence upon imported intermediate goods as they are called. Mexico scarcely produces anything without an import from the United States.

We can say that they will try some additional import substitution, but if they are successful in expanding, it will clearly increase import trade from the United States.

The new exchange rate will surely stimulate the tourist trade, once people realize how attractive prices are. Mexico has some highly-developed tourist areas that Americans and Canadians will want to visit economically.

In the longer run, I have no doubt about the viability of the Mexican economy. Its endowment of energy resources and other minerals; its fabulous tourist attractions; its growing and modern industrial sector; its skilled entrepreneurs, both public and private; its increasingly educated cadres of trained technicians; and its possibilities for large internal markets—all of these give it quite good prospects for high rates of growth. And if they achieve good growth, it will have favorable repercussions on us.

What should we do?

If you ask a Mexican, his answer is generally, "promote your own recovery". That is the best way you can help. A second general answer is to help Mexico finance resumption of high growth rates by offering loans and by allowing debt restructuring and stretchout, a point of view I think the Congress and the new administration here are sympathetic with.

A third general answer is stimulate Mexico's economy by liberalizing import trade. We had some good instructions from our other witnesses this morning.

On a practical level, the United States should do nothing to increase Mexico's trade deficit.

It is going to be very hard for us to avoid trying to solve our problems one by one in ways that will adversely affect Mexico. Even the problem of illegal migrants, one could hope, would be approached with a positive attitude of creating new jobs. Remember those unilateral transfers.

Thank you, Mr. Chairman.

Representative LONG. Thank you, Professor Blair. We will get back to you, if we may, during our discussion. I read through your prepared statement; it was most informative and it will, without objection, be printed in the hearing record.

[The prepared statement of Mr. Blair follows:]

Prepared Statement of Calvin P. Blair

Mexico: Some Recent Developments and the Interdependency Relationship With the United States

INTRODUCTION: REVOLUTION AND ECONOMIC DEVELOPMENT IN MEXICO

Mexico, it is often forgotten, is one of the world's large countries, thirteenth in geographical size and ninth in population. Its Gross Domestic Product of 62 billion dollars makes it the world's eleventh largest economy. It s also one of the world's successful developing countries and heir to a major social revolution. "La Revolucion Mexicana" began with ten years of shooting wars. One million Mexicans died, at a time when the population of the country was just 15 millions. Mexico's political leaders have defined the Revolution to include the creation of a modern industrial nation-state.

After a phase of revolution and reform, 1910–1950, the Mexican economy for three decades kept real output growing at rates from 6 to 7 percent per year, well ahead of its high population growth rate of 3 to 3.5 percent. The economy underwent major structural transformation. Agriculture declined in relative importance while expanding rapidly in absolute terms; and manufacturing came to represent 23 percent of the Gross Domestic Product. Modern facilities have developed in a long list of light manufacturers and also in the heavy industries of steel, petroleum, chemicals, electrical energy, machinery, and transport equipment.

The constitution of 1917 established the principle of a "mixed economy", and "Revolutionary" governments have promoted a vigorous entrepreneural state which intervenes in intricate ways. It uses a range of fiscal incentives and monetary policy measures, provides public credits in ample amounts, protects internal markets from import competition, and invests in direct government ownership of key firms in energy, steel, fertilizers, petrochemicals, transportation and transport equipment, paper, sugar, and a variety of other products. The entrepreneural state runs some 800 para-state enterprises and agencies. It enters into joint public-private capital ventures, even wth foreign investors; and it pushes government investment into any area in which it thinks private investment is flagging.

Despite much "guidance" of the economy, the Mexican government relies heavily on private initiative, avoids rigid centralized planning, and expresses frequently tender concern for the prejudices of the business sector. It has kept taxes on income from capital relatively low, by world standards; and for extended periods it maintained stable exchange rates and an absence of exchange controls—conditions dear to private investment planners and lenders of funds across the international boundaries. Even after floating the peso, no formal exchange controls were imposed, and capital and earnings can be freely repatriated.

Thirty-six years of impressive development, however, have still left Mexico with profound structural problems: massive underemployment, strong pressures of population on the land and in urban centers, a poorly educated labor force, and an income distribution pattern typical of the world's most backward nations. There has been a growing deficit in the current account of the balance of payments, financed by increasing reliance on foreign direct investment and public external debt. Foreign firms, especially of U. S. origin, have become conspicuously important in the export of manufacturers; and foreign technology has been widely used.

RECENT DEVELOPMENTS: 1970–1976

When Luis Echeverria became President of Mexico in 1970, he determined to begin a restructuring of the Mexican economy. He intended to redistribute income in favor of labor and peasants, vastly expand employment opportunities, decentralize industry, improve the balance of payments, diversify Mexico's sources of trade and capital, and reduce dependence on foreign investment and technology.

That is a large and complex order, not achievable in six years. But Echeverria was the most active President in modern times, prodigious in his legislative initiatives and indefatigable in his attempts to do many things at once. His activism, his impatience, his style, and his occasional baiting of the press and the business community earned him a great deal of critical opposition.

His economic policies, however, with a few notable exceptions, were appropriate to the times. They included some of the most important measures for long-run change. He created a National Council on Science and Technology a workers' housing institute, a Mexican Institute for Foreign Trade, and a huge new Metropolitan University. His emphasis was on technical and higher education. Under his administration, Mexico adopted its first agricultural reform law in thirty years, a federal water law, a national agricultural plan, a national indicative plan for science and technology, laws for the regulation of foreign investment and technology transfer, electoral reform, consumer protection, federal control of town and regional planning, pollution control, and even a general population law which recognizes the wisdom of family planning.

Selected results during the Echeverria administration are impressive: public credits to agriculture increased five-fold; two-and-a-half million acres were added to irrigated lands; half of all land under cultivation was fertilized; electrical generating capacity doubled to 12 million KW; roadway length almost tripled to 125,000 miles; steel output doubled to 10 million tons per year; crude oil production doubled to over one million barrels per day, and proved reserves expanded to 11 billion barrels. The list is long, and it is a veritable litany to agricultural and industrial development.

Of nearly 400 billion pesos (32 billion dollars) authorized for federal investments in the 1971–1976 period, 36 percent went to industry (petroleum, petrochemicals, electricity, and steel, primarily); 22 percent went to transport and communications; 22 percent went to social welfare facilities, heavy on schools and hospitals; and 17 percent went to agriculture and rural development. Combined current and capital expenditures of the federal government regularly emphasized education, agricultural and industrial development, irrigation, natural resources, and transportation infrastructure. Public sector expenditures by state-owned "decentralized" agencies were dominated by PEMEX, the electric power companies, the social security agencies, CONASUPO (which supports agricultural prices and subsidizes low income consumption), and the national railways.

In the inevitable conflict between stability and structural change, Echeverria opted to keep up government spending and employment. The macroeconomic results (shown in Table 1) were to keep Mexico's real output expanding under difficult circumstances, but with resultant rapid increases in the money supply, the federal deficit, the current account deficit in the balance of payments, the public foreign debt, and the rate of inflation. One unintended result was the favoring of business profits over labor incomes—though repeated efforts were made to maintain the latter through upward revisions of minimum wages and the control of some 300 prices. Because government spending was maintained relative to private spending, the government's share in gross fixed investment rose from 27 percent in 1971 to 42 percent in 1975; and total government spending on both capital and current account grew from 13 percent of Gross Domestic Product to 21 percent.

One inevitable result was the floating of the peso—but that was long overdue.

From 1970 to 1975 (the last year for which we have reliable estimates), total real output grew at an average annual rate of 5.7 percent, and per capita output at 2.2 percent. Real product per person in 1975 (corrected for the overvaluation of the peso) was about 820 dollars, which puts Mexico at the upper levels for "non-oil" underdeveloped countries.

ECONOMIC INTERDEPENDENCE: A ONE-SIDED RELATIONSHIP

The Mexican economy is dependent upon the United States in profound and intricate ways. That is a source of sensitive feelings on the part of Mexican nationals. It is also sufficient reason for diversifying sources of trade, investment, and technology, and for pursuing an independent Mexican stand on international relations.

Mexico sells about 60 percent of its merchandise exports to the U.S., buys a somewhat larger fraction of its imports from that source, and runs two-thirds of its trade deficit with its giant neighbor. (See Tables 2 and 3). Mexican business firms also pay over 100 million dollars annually for U. S. patents and other technology, some 150 millions in profits to U. S. direct investors, and nearly 400 millions in interest on loans and credits from U. S. sources. It relies on U. S. customers for 70 percent of its tourist and border sales, and makes virtually 100 percent of its similar purchases in the United States. U. S. investors own 72 percent of all direct foreign investment in Mexico. Ninety percent of Mexico's externally funded public debt is denominated in U. S. dollars, and 90 percent of the central bank's foreign exchange reserves are held in dollars.

There has been a veritable invasion of U. S. goods, services, practices, standards, and ideas. At the operational level, Mexican producers have been highly susceptible to the vagaries of United States policy or practice: the salinity of the Colorado River threatened Mexican agriculture; Florida tomato growers once prevailed upon U. S. authorities to restrict imports by size of fruit, hurting Mexican exporters; an independent truckers' strike hit Mexican exports heavily, since so many travel over the U. S. highway system; export quotas on scrap once pinched Mexican steel producers; zealous efforts to intercept drugs had the byproduct effect of depressing retail trade in border cities; and so on and on.

Mexico lives in apprehension that the United States will suddenly clamp down very hard on migrant labor, both legal and illegal.

If Mexico did not enjoy a surplus on tourist trade with the U. S., and if it were not for the receipt of private unilateral remittance of more than 100 million dollars per year (much of which must surely be money sent home by illegal migrants), her current account deficit with her partner would have been about 300 million dollars larger than the 2.2 billions recorded for 1975.

The reciprocal dependence of the United States on Mexico is relatively slight—but still of surprising importance in a few key respects. (Tables 2 and 4). In 1975, Mexico was the fourth most important customer, taking 4.8 percent of total merchandise exports, and the sixth largest supplier, furnishing 3.1 percent of imports (both exclusive of border trade). However, the trade surplus with Mexico accounted for nearly one-fourth of the total U. S. trade surplus of 9 billion dollars in that year; and the U. S. has run a large merchandise trade *surplus* with Mexico for many consecutive years, even when it has had large net *deficits* worldwide (e.g., in 1971, 1972, and 1974). As for tourism, only Canada is in Mexico's class for travel either way. In 1975, U. S. tourists did manage to spend in *all of Western Europe* roughly the same amount they spent in Mexico; but reciprocal purchases by European travelers were not even half of those made by Mexican visitors.

United States firms have a very small portion of their direct investments in Mexico and receive an even smaller fraction of their worldwide direct investment income from there; but Mexico as a source of income on foreign loans is somewhat more important, relatively.

BORDER SYMBIOSIS

On a microeconomic level, pairs of sister cities exist in a kind of economic symbiosis on opposite sides of the U.S.—Mexican border. The Mexican city typically furnishes some workers to the agriculture and service trades of the U. S. side. It also acts as entrepot for goods moving into the Mexican interior, serves as an assembly point for location of one of "twin plants" which produce for U. S. markets, and draws to its tourist attractions large numbers of U. S. and Canadian travelers who reside temporarily on the U. S. side or spend there while passing through. Its growing population of Mexican consumers spend heavily on the U. S. side of the border, in the past accounting for anywhere from 10 percent to 90 percent of the retail sales of individual establishments. The sister city on the U. S. side provides similar enterpot and expenditure stimuli to its Mexican counterpart, and it often contains the other half of the "twin plants". Because of reciprocal influences, each city is larger than could be expected on the basis of geographical setting, natural resource base, or location with respect to its own national markets. The high incomes in Mexican border cities, *relative* to the rest of Mexico, serve as a strong attraction to in-migration from areas of lesser economic opportunity. Because the number of respondents greatly exceeds the number of jobs, the migration wave continues northward, legally and illegally. The process is facilitated by a network of family and friendship relations in U. S. border cities and in key interior points: Los Angeles, San Antonio, Chicago.

The migration of Mexican labor is the epitome of economic "rationality". and the income and opportunity differentials are so great that only a garrison state could stop the flow. No one knows how many illegal migrants there are,

91-139—77——24

but one hears guesses, on both sides of the border, ranging from one to six million. Such workers make large positive contributions to U. S. output and significant positive contributions to Mexico's balance of payments. They also make the reduction of unemployment among low-income residents of the United States a larger task; and the elastic supply of labor depresses wages.

SHORT-RUN OUTLOOK

On December 1, 1976 Mexico inaugurated a new President, Jose Lopez Portillo, who made a careful appeal for national unity, incorporated business enterprises into his new "indicative" planning scheme, and adopted budget proposals and minimum wage settlements which indicate a serious effort to reduce inflation. (See the essay on Mexican economic policy in the Annex to this statement).

Lopez Portillo will continue to emphasize the entrepreneurial state; his budget allocates expenditures largely to education and to the key sectors of energy, steel, transport, and workers' housing. His program places renewed emphasis on the creation of industrial jobs; and his government signed ten accords with 140 business firms in the following areas: petrochemicals, capital goods, "in-bond" plants, tourism, fats and oils, cement, automobile parts and assembly, and mining.

Of special interest is the accord with the *industria maquiladora*, as the "in-bond" assembly plants are known. It calls for the creation of 175,000 new jobs over six years, investments of 10.5 billion pesos, and an increase in exports from the 480 million dollars estimated for 1975 to a target level of 1.5 billions for 1982. "In-bond" plants are expected to increase at the rate of 150 per year. The Mexican government is studying appropriate fiscal incentives, and promises to negotiate with the U.S. government to improve prospects for re-export of of finished textiles.

The floating peso has changed abruptly all relative costs and prices. U.S. goods became 60 percent higher, in pesos, and Mexican goods 37.5 percent cheaper in dollars—unless prices in national currencies were changed to offset the depreciation of the peso. Costs in the "in-bond" plants are competitive again; and, since U.S. demand is recovering, the expansion program is likely to succeed, unless the United States eliminates the special tariff provisions which permit the "twin-plant" industry to exist at all (Items 806.30 and 807.00 of the United States Tariff Schedules).

Much more than "in-bond" assembly is involved. The Mexican government has long hoped to incorporate into the national economy the border cities, whose isolation from Mexican producers and whose proximity to rich and cheap sources of U.S. goods, had made them almost like foreign areas. The new exchange rate and a floating peso offer an opportunity. The Mexican government has an intersecretarial commission to stimulate planning for the development of the northern border; and public credits and tax incentives will be given to producers who "capture" those markets—just as if they were export markets. Along the border, Mexican businessmen have noted an increase in sales of foodstuffs and clothing and a reduction of competition from contraband. Significant new investments are being made, or being planned, for retail trade in goods of Mexican origin.

Meanwhile, U.S. border cities have suffered sharp declines in retail trade. (Many of them had reported "unseasonal" highs in that trade in July and August, as Mexicans spent in anticipation of the peso depreciation; so the 1976 trade year may not have suffered very much). But cost and price adjustments will have to be made. In some cities, the equivalent of a 20 percent price reduction across-the-board has already taken place with the decision of merchants to accept pesos at 18 per dollar. The efforts of Mexican producers to capture their own border markets will take time. The variety and quality of U.S. goods is hard to match, especially over the short-run. The increase in Mexican incomes which will come with successful promotion of border development will stimulate trade on the U.S. side, as well.

Mexico has some prospects for reducing, but not eliminating, its trade deficit with the United States. One problem for Mexico is the heavy degree of dependence of Mexican output on imported inputs; but there will be some additional import substitution. The new exchange rate will surely stimulate the tourist trade, once U.S. residents realize how attractive prices are. That is sure to produce some business for U.S. border cities, as well as for the Mexican border and interior.

LONG-RUN OUTLOOK

There is no doubt about the long-run viability of the Mexican economy. Its endowment of energy resources and other minerals; its tourist attractions; its growing and modern industrial sector; its skilled entrepreneurs, both public and private; its increasingly educated cadres of trained technicians; and its possibilities for large internal markets—all give it excellent prospects for high rates of growth. For either Mexico or the United States, high rates of growth on one side of the border stimulate growth on the other; but one must remember the grossly one-sided nature of the relationship.

U.S. POLICY: WHAT TO DO?

What should the United States do? The general answer is: promote its own recovery and expansion. That is the best help it can give. A second general answer is: help Mexico to finance its resumption of high growth rates by offering loans and by allowing debt restructuring and stretch-out. A third general answer: stimulate Mexico's economy by liberalizing import trade.

On a practical level, the U.S. should do nothing to increase Mexico's trade deficit. One can even hope that the approach to the problem of illegal migrants will be the positive one of job creation. Remember those unilateral transfers!

TABLE 1.—MEXICO: SELECTED ECONOMIC INDICATORS, 1970–76

	1970	1971	1972	1973	1974	1975	1976
1. Gross domestic product:							
Billions of pesos	418.7	452.4	512.3	619.6	813.7	987.7	1,231.0
Increase, percent per year	11.7	8.0	13.2	20.9	31.3	21.3	24.6
2. General price level:							
GDP deflator, 1970=100	100.0	104.5	110.3	123.9	153.5	178.9	216.5
Increase, percent per year	4.5	4.5	5.6	12.3	23.9	16.5	21.0
3. Real gross domestic product:							
Billions of 1970 pesos	418.7	433.0	464.6	499.9	529.5	552.0	568.6
Increase, percent per year	6.9	3.4	7.3	7.6	5.9	4.2	3.0
4. Population, mid-year:							
Millions	50.7	52.4	54.3	56.2	58.1	60.1	62.3
Increase, percent per year	3.5	3.5	3.5	3.5	3.5	3.5	3.5
5. Real GDP per capita:							
1970 pesos	8,258.0	8,263.0	8,556.0	8,895.0	9,114.0	9,185.0	9,127.0
Increase, percent per year	3.3	0	3.5	4.0	2.5	.8	−.6
6. Money supply, December 31:							
Billions of pesos	49.0	53.1	64.3	79.9	97.5	118.3	[1] 121.3
Increase, percent per year	10.6	8.4	21.1	24.3	22.0	21.3	[2] 27.0
7. Wholesale prices:[3]							
Index, 1970=100	100.0	103.7	106.7	123.4	151.2	167.1	213.0
Increase, percent per year	5.9	3.7	2.9	15.7	22.5	10.5	27.5
8. Consumer prices:[3]							
Index, 1970=100	100.0	105.7	111.0	123.6	151.3	176.8	212.9
Increase, percent per year	5.2	5.7	5.0	11.4	22.4	16.9	20.4
9. Federal Government revenues:[4]							
Billions of pesos	33.9	36.5	42.3	53.8	72.9	103.1	133.9
Increase, percent per year	12.2	7.7	15.9	27.2	35.5	41.4	29.9
Revenue as percent of GDP	8.1	8.1	8.3	8.7	9.0	10.4	10.9
10. Federal Government expenditures:[4]							
Billions of pesos	40.2	41.3	59.1	81.2	104.1	145.1	184.9
Increase, percent per year	1.8	2.7	43.1	37.4	28.2	39.4	27.4
Expenditure as percent of GDP	9.6	9.1	11.5	13.1	12.8	14.7	15.0
11. Federal Government deficit:[4]							
Billions of pesos	6.3	4.8	16.8	27.4	31.2	42.0	51.0
Deficit as percent of GDP	1.5	1.1	3.3	4.4	3.8	4.3	4.1
12. Current account deficit balance of payments: Millions of U.S. dollars	1,068.0	838.0	916.0	1,415.0	2,876.0	4,057.0	4,060.0
13. Long-term foreign debt of public sector, December 31:[5] Billions of U.S. dollars	na	3.6	4.2	5.7	8.0	11.6	20.0

[1] As of Sept. 30.

[2] Sept. 30, 1975, to Sept. 30, 1976.

[3] Indexes for Mexico City.

[4] Cash-flow figures only. Total Government spending for consumption and fixed investment are a much higher proportion of GDP than that shown here, e.g., 13 pct in 1971, rising to 21 pct in 1975.

[5] Debt of maturity of 1 year or more issued or guaranteed by the Federal Government, plus similar debt of selected Government institutions. Does not include any "floating" debt of less than 1-year maturity, used largely to finance imports or exports.

Sources: International Monetary Fund, International Financial Statistics (May and August 1976); Banco de México, Indicadores Económicos (October 1976); and Secretaría de Hacienda y Crédito Público. Estimates for 1976 were made by the author on the basis of preliminary and partial data.

TABLE 2.—KEY ITEMS IN U.S. TRADE AND PAYMENTS WITH MEXICO, 1970–75

[In millions of dollars; credits +; debits —] [1]

	1970	1971	1972	1973	1974	1975
1. Merchandise trade:						
Exports to Mexico	1,706	1,619	1,985	2,962	4,860	5,169
Imports from Mexico	−1,223	−1,262	−1,632	−2,307	−3,391	−3,057
Balance	483	357	353	655	1,469	2,112
2. Tourism and transport: [2]						
Sales to Mexico	567	618	753	871	1,190	1,542
Purchases from Mexico	−748	−930	−1,178	−1,317	−1,541	−1,715
Balance	−181	−312	−425	−446	−351	−173
3. Fees and royalties:						
Received from Mexico	81	87	80	96	115	137
Paid to Mexico	0	0	0	0	0	0
4. Income on direct investment:						
Received from Mexico	91	123	81	98	112	156
Paid to Mexico	0	0	0	0	−1	−1
Balance	91	123	81	98	111	155
5. Other investment income:						
Received from Mexico	166	138	167	234	385	395
Paid to Mexico	−59	−29	−26	−54	−120	−106
Balance	107	109	141	180	265	289
6. Unilateral transfers to Mexico: [3]						
U.S. Government grants and pensions	−23	−29	−36	−44	−54	−58
Private remittances and gifts	−62	−63	−69	−92	−102	−109
Total	−85	−92	−105	−136	−156	−167
7. Balance on current account [4]	435	186	33	338	1,343	2,217
8. U.S. capital flows to Mexico:						
Direct investment	−92	−48	−73	−55	−193	−31
Other [4]	−41	−28	−391	−325	−1,039	−1,458
Total	−133	−76	−464	−380	−1,232	−1,489
9. Mexican capital flows to United States:						
Direct investment	0	0	0	−1	1	4
Other [5]	−45	−134	122	505	484	361
Total	−45	−134	122	504	485	365
10. Statistical discrepancy and transfer of funds between foreign areas	−282	24	308	−462	−596	−1,093
11. Change in U.S. official reserve assets, vis a vis Mexico [6]	25	0	0	0	0	0

[1] Credits (+): Exports of goods and services to Mexico; receipts of income on United States investments in Mexico; capital inflows (increase in Mexican assets in United States or decrease in United States assets in Mexico); sale of United States monetary gold. Debits (—): imports of goods and services from Mexico; payments of income on Mexican investments in the United States; unilateral transfers to Mexico; capital outflows (decrease in Mexican assets in United States or increase in United States assets in Mexico).

[2] Includes border transactions.

[3] Estimates are net of transfers from Mexico to United States residents.

[4] Goods, services (including income on investments), and unilateral transfers.

[5] Other investments include loans, credits, deposits, and net purchase of securities, both Government and private.

[6] This item is included to indicate that the statements summarized here are "balanced"; i.e., the sum of current account, plus capital account, plus statistical discrepancy, plus change in official reserve assets, equals zero. The entry for 1970 represents a sale of gold to Mexico. Changes in Mexico's holdings of United States dollars as official reserve assets (which are reserve-related liabilities for the United States) are included in line 9, "other" Mexican capital.

Source: Survey of Current Business (June issues, 1973–76).

TABLE 3.—SOME MEASURES OF THE RELATIVE IMPORTANCE OF THE UNITED STATES TO MEXICAN TRADE AND PAYMENTS, 1975

Mexico item	Total (millions)	Approximate U.S. share (percent)
1. Merchandise exports (free on board)	$2,859	60
2. Merchandise imports (cost, insurance, and freight)	6,580	62
3. Merchandise trade deficit	3,721	67
4. Tourist and border receipts	2,431	71
5. Tourist and border expenditures	1,491	100
6. Tourist and border trade surplus	940	25
7. Direct foreign investment in Mexico, book value (December 31)	4,400	72
8. Long-term foreign debt of public sector (June 30, 1976)	13,331	[1] 89
9. Foreign exchange reserves	1,214	[2] 90

[1] Percent of debt payable in U.S. dollars. Rest is payable in marks, francs, pounds, yen, and other currencies.
[2] Percent held as U.S dollars. Rest is held in other currencies.

Sources: Indicadores Económicos; Survey of Current Business; Secretaría de Hacienda y Crédito Público; and Mauricio de Marlay Campos, "Política y resultados en materia deinversiones extranjeras," in Suplemento de Comercio Exterior, Vol. 26, Núm. 7 (July 1976), p. 30.

TABLE 4.—SOME MEASURES OF THE RELATIVE IMPORTANCE OF MEXICO TO UNITED STATES TRADE AND PAYMENTS, 1975

U.S. item	Total (millions)	Approximate Mexico share (percent)
1. Merchandise exports (free on board)	$107,133	4.8
2. Merchandise imports (free on board)	98,150	3.1
3. Merchandise trade surplus	8,983	23.5
4. Tourism and transport receipts	11,667	13.2
5. Tourism and transport expenditures	14,170	12.1
6. Tourism and transport deficit	2,503	6.9
7. Direct foreign investment, book value (December 31)	133,168	2.4
8. Income received on direct investment	9,456	1.6
9. Other investment income received	8,763	4.5
10. Fees and royalties received	4,285	3.2
11. Income paid on foreign direct investment in United States	2,127	0.0
12. Income paid on other foreign investment in United States	10,085	1.0

Source: Survey of Current Business (June and August 1976).

Representative LONG. Professor Hillman, we are pleased to have you with us. As a consultant for the United States aid programs, for the World Bank, and for the Organization of American States, you are a well-recognized expert, a specialist in Latin American agricultural problems. Professor, if you would proceed in your own way, sir.

STATEMENT OF JIMMYE S. HILLMAN, HEAD OF THE DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF ARIZONA

Mr. HILLMAN. Mr. Chairman, it is a real pleasure for me to be here. I find a surprising concurrence on my own part with the things which have already been said. I am from Arizona. My first experience in Mexico was in the summer of 1974 where I was up there on sort of a second honeymoon with my wife to study postdoctoral; and after coming to Arizona, I became involved, of course, with many problems of Mexico and having had many Mexican graduate students and many relationships with the northern part of Mexico, especially, I think I know something about agriculture, although I would not, as I said in my paper, want to be considered as the ultimate expert on Mexican agriculture or Mexican economics, vis-a-vis the United States.

I think since there have been many comments already made, I will skip much of my comments and just draw your attention to the fact that the trade balance has, indeed, deteriorated. I have that on figure 1 of my paper. It has indeed deteriorated especially since 1970. I will relate that somewhat very quickly, especially due to the increased agricultural imports which were necessary on the food side. I call your attention to two figures, 1974 and 1975, the figures jumped up precipitously with respect to the importation of U.S. grains.

As Professor Blair has already said, our dependence on Mexico is not nearly so much as the reverse. The U.S. market normally takes 50 percent of the Mexican exports; but with respect to our own export situation, even though important, it is not nearly so important relatively speaking.

With respect to—I set some small amount of information relative to the fruit and vegetables, cotton, and livestock. I have made some comments with respect to how the devaluation has accelerated the exports since September 8.

I have also said something about overall agricultural production; but I would like to skip several pages of my prepared statement and start talking about agricultural productivity and deal with some of the microeconomic elements of productivity in the Mexican agricultural sector.

Growth in overall Mexican agricultural productivity, that is the agricultural efficiency during the decade 1960–70 was at the rate of 4.9 percent per year; in the irrigated areas it was 5.8 percent; in the nonirrigated, 4.5 percent. In the 5-year period 1970–74, the overall productivity increase was only 1.8 percent per year.

The irrigated areas continued to increase at the rate of 6.7 percent annually; but nonirrigated area productivity actually declined at a −0.8 percent annual rate. That was the 5 years, 1970 to 1974.

The same thing is true for the yield data that demonstrated stagnancy during the 1970–74 period. Net exports of Mexican agriculture increased noticeably until 1969, but were zero by 1974. I am talking about net exports, as the actual agricultural trade difference between exports and imports.

Moreover, the terms of trade had turned demonstrably against Mexican agriculture, mainly because of a slowdown in productivity and the relatively higher prices of Mexican agricultural exports on world markets.

It is difficult to explain completely the causes of this stagnation. It is like the green revolution gone sour. To be sure, it was cold in the highlands, in 1974–75 and 1975–76. They were a major crop reduction factor.

During the latter period, political uncertainty was somewhat damaging. There are, no doubt, other factors in the stagnation in addition to weather and politics.

Lack of investment in the agricultural sector cannot bear the blame for the slowdown in productivity. Agricultural investment rose from 6 percent of the Federal budget in 1960—580 million pesos—to 12 percent in 1970—2,970 million pesos—and, further, to 16 percent—10,200 million pesos—in 1974. Nor can the lack of fertilizer be blamed. Its use increased at the rate of 10 percent per year from 1970 to 1974.

It is estimated that domestic consumption of agricultural products in Mexico will increase at the rate of 4.7 percent per year until 1982. Population growth is estimated at 3.6 percent annually during this same period.

With the already noted slowdown in agricultural productivity this will necessitate increased food imports, particularly corn.

It is my estimate this will be 2 million tons out of a 10-million ton annual consumption. While this is good for U.S. exports, it certainly places a burden upon foreign exchange.

Mexico will have to sell more to the United States to obtain the dollars. The most likely agricultural products available for this export role are fresh fruits and vegetables and complementary products, such as coffee.

I want to talk briefly about the obstacles to increased production.

Further acceleration of food production in Mexico must take account of several facts. The great strides in yields and total production of the post-World War II period came in the relatively small, progressive modern sector of the agricultural economy.

Cognizance must be taken that the technology-based agricultural revolution, which appears to have run its course in irrigated areas, incorporated, in addition, highly specialized managerial techniques as well.

Those who expect or hope for a similar experience in the traditional farming sector or nonirrigated areas are, in my opinion, underestimating the time necessary to transfer and adapt management and technology to these other agricultural areas.

This time lag, of course, can be shortened through the application of proper economic stimuli.

Nevertheless, I think it is not going to be so much of a miracle in the agricultural sector as it was in the highly specialized irrigated areas.

More land is available in the nonirrigated areas, but its development will be costly. Mr. Wellhausen estimates that 150,000 hectares of new land could be brought into year-round crop production almost immediately and 3 million hectares within a decade. Marginal costs of production on such land would, no doubt, be very high.

Maintaining and increasing production in the modern and irrigated sectors will be affected by the limited supply of water and its irregularity. Although this sector, with more than 70 percent of the irrigation facilities, can produce more, the great gains of the past should not be expected.

The Mexican Government is expected to continue strenous effort to stimulate additional food production. Assistance will take several forms.

More practical on-farm research, especially on the corn and beans. Second, the Government will continue to assist in the provision of modern inputs, including operating credit.

Third, it will provide stability on the demand side by intervening with price supports and other mechanisms attendant to marketing and distribution intranationally as well as internationally.

Finally, economic development assistance will include major capital investment to bring additional land under cultivation.

I would like to definitely concur with Professor Blair that trade is a two-way thing and that the interdependence of our two countries is the very essence of the recovery of both.

As I pointed out, short to intermediate-term deficits in the Mexican food production, namely in grains, coupled with growth in population and effective demand, will create a need to import 10 to 20 percent of its food needs.

The magnitude of these needed implications will depend upon domestic production and supply conditions. For example, the 1975–76 recovery over the 1974 to 1975 period in the production of corn, wheat grain, sorghum, rice and dry beans was instrumental in reducing agricultural imports from the United States from $863 to $567 million.

It is likely that the deficit in food production will be made up principally from U.S. supplies. United States trade with Mexico in the short-term is clouded by peso devaluations.

We already heard sufficient testimony and evidence to that effect. The effects will be offset to some extent by new export taxes and reduction in import duties announced on September 8, 1976.

I have in my testimony the selected import duties. I point out that the Mexican Government stated these measures were necessary to prevent a rise in internal prices and to divert to the national treasury part of the windfall profits arising from devaluation.

These taxes will be repealed when the competitive situation no longer warrants them, according to the Government statement.

The reduction in import duties was also announced as a temporary measure. In addition, the former export tax rebate for processed agricultural goods is to be repealed. Anticipated internal wage and price increases will further erode exporters' gains from the new peso value.

Under the new exchange rates, export duties for most unprocessed agricultural products have been set at 18 percent. These are export rates.

For manufactured products, duties have been set at 6.5 percent, a figure that also applies to processed citrus and tomatoes, fresh and frozen strawberries, and certain sugar and confectionery items.

However, the 18 percent rate will apply to raw and refined sugar, as well as to cotton. Unprocessed coffee will pay a 38 percent rate. The rates are subject to change, however, as they are constructed on a sliding scale, dependent on the value of the peso.

On the import side, duties have been reduced for a number of commodities in order to keep food and other prices from rising.

You will note the rather dramatic reduction which has the effect, of course, of keeping local prices in balance that have been made by the Government after September 8, 1976.

Now that the peso has been devalued, Mexico has two economic options. The benefits of devaluation may be offset if domestic wages and prices increase to any great extent, or if other financial policies are instituted which inhibit exporters from lowering or at least holding constant their prices in the world market.

Mexico's other option is to keep wages more or less constant, reaping the benefits of devaluation. In our own case, we who have gone through devaluation know this is a difficult thing to do.

In the long run, this is the more viable economic alternative, but it implies a higher cost of living and slower economic growth than in recent years, a difficult position to take.

Over the long pull, large oil reserves provide one of the brightest spots in Mexican international commerce.

With respect to trade policy—and this is something I discussed with Mexican economists and our own economists in the Foreign Agricultural Service and even in Geneva on occasion—it is hoped that Mexico would participate as a full member in the GATT negotiations in Geneva.

I would like to say a word or two about population, migration, and land reform as they impact upon the agricultural sector.

Like all other issues which relate to the national culture, these issues are very complex.

I shall try to limit my discussion to the economics alone. I guess I will do away with one or two paragraphs by agreeing with Professor Blair that the vacuum created between a high population growth rate, the low marginal output of labor and low wages in Mexico, while the opposite exists in the United States, results in a "natural" spilling of people over the border.

The decade of the 1960's in Mexico witnessed a widespread and fairly intensive transfer of labor out of the agricultural sector and into other sectors of productive activity.

In all states the agricultural labor force declined relative to other sectors, and in most states this involved a decline in absolute numbers as well. Many states experienced very sharp declines for the decade.

The transfer out of agricultural employment unquestionably resulted in increased unemployment and underemployment in the most densely populated rural areas, and in movements into nonagricultural activities.

In addition, however, it produced sizeable intrastate, interstate, and international migration of agricultural workers.

While it is difficult to document the precise number of migrants originating in the agricultural sector, the percentage of rural workers in the migrant streams is known to be very high.

In addition to the long term movements, there is a well established pattern of seasonal migration into several of the areas showing strong positive deviations, as well as into the southwestern United States.

Much of this movement comes from the heavily populated south-central states.

Declining labor productivity in agriculture in the early 1970's only exacerbated these phenomena and the rural, as opposed to the purely farm, population has continued to grow at a very rapid rate.

The pressure build-up is, therefore, intense. I, thus, cannot agree entirely with the statement, "...even small-scale market-oriented agriculture is thus rendered less attractive to Mexico's rural population."

The authors of this publication imply there is no longer too much pressure to take over the land because of this outward migration.

The fact is they have gone out of agriculture but still stayed in the rural countryside. The masses may be deluding themselves but, for equity reasons, income distribution, they see themselves as being better off individually if they can grab the land.

I have a paragraph in my prepared statement with respect to the amount of land involved and the recent expropriation and so forth.

From all external appearances, the new administration of Senor Lopez Portillo is going to take a "go slow" attitude with respect to land distribution.

In any event, rural population pressure continues to grow. I question whether, as some believe, that it will be easier to convert the subsistence population in the marginally productive agricultural labor force than to try to incorporate them into alternative job opportunities.

Experiences all over the world testify to the expensive nature of job creation in agriculture. We went that route, i.e., that way of thinking, and made many, many analyses when I was director of the President's Commission. The Commission on Rural Poverty did the same thing.

We find that job creation in agriculture including the squatting of the land is a very illusory proposition. It is very expensive as well.

As a political expedient, keeping the masses pacified in rural areas may work. As an economic solution, it is questionable.

As to suggestions in the near term, I agree that the most appropriate way to increase agricultural production in Mexico will be for the new president to try to eliminate uncertainty in the land tenure situation.

This must be followed by policies to transfer inputs to the productive agricultural sector and to stabilize incomes at levels to provide adequate return on investment.

A liberal trade policy between the United States and Mexico is a necessary adjunct to Mexico's progressive farm policy.

Inordinate levels of self-sufficiency, protectionism and trade obstruction are not in Mexico's long range best interest.

The United States should cooperate in the development of such a policy, particularly in the elimination of nontariff trade barriers.

Long-range, large-scale economic development is the ultimate factor which will result in fundamental solutions to Mexico's problems which will, in turn, take pressure off the border areas. To further this development, Mexico may well open its doors to and encourage massive doses of foreign investment. I will not comment on proposals to dramatically reduce the growth rate of Mexico's population through massive international migration. Even if it could work, it would be but a temporary palliative for Mexico's fundamental problems.

I would like to point out that one very temporary palliative which the United States may make especially in light of our recent freeze in Florida and the current crisis and chaos in the vegetable industry, the executive and the legislative branches of the United States Government may look with favor on reducing the tariffs on fresh fruits and vegetables temporarily.

Representative LONG. I was going to ask you, Professor, whether this terrible weather we have had all over the United States in the past few weeks has extended into Mexico?

Mr. HILLMAN. No. It has not affected the production conditions. The uncertainty did affect it somewhat last year, the political uncertainty, but not all that much.

We are shipping everything right now from Mexico, I think. That's the end of my statement.

Sorry to have had to rush so hurriedly. I think it is important to get to the questions.

Representative LONG. Thank you very much.

It was most enlightening. I can see how you gained your reputation. Your prepared statement will be printed in the hearing record.

[The prepared statement of Mr. Hillman follows:]

PREPARED STATEMENT OF JIMMYE S. HILLMAN*

Mr. Chairman: I am Jimmye S. Hillman, Head of Department of Agricultural Economics, The University of Arizona. I have resided in Arizona and have been involved in many ways with the agricultural and related problems of Mexico as they affect United States interests. Also, my Department at the University has trained many Mexican students, undergraduate and graduate. Even so, I do not consider myself to be the ultimate on Mexican agricultural and rural affairs.

Mr. Chairman, I assume that your subcommittee has at its disposal ample gross factual evidence relating to economic, agricultural, social and political conditions in Mexico and the border areas. In fact, I shall refer to or shall include such data in my statement. I shall also supply a small bibliography from which most of my data derive.

My testimony will not attempt to prove specific outcomes but, instead, will consist of some general observations and probabilities based on the information and bibliographies and will contain a plea for liberal agricultural and trade policies between our two countries.

CURRENT AGRICULTURAL SITUATION

Mexico's agriculture is both complementary to and competitive with that of the United States. The United States exports to Mexico considerable corn and other feed grains, wheat-hides, dried beans, soybeans and products, live cattle for slaughter (maquila beef) and other products, a total of $587 million in agricultural exports for 1975. The U.S. imports from Mexico coffee, live cattle (feeder type), beef, tomatoes, sugar and a variety of fruits and vegetables—a total of $509 million in agricultural imports for 1975. Thus for 1975, the value of U.S. agricultural exports to Mexico and agricultural imports from Mexico were of similar magnitude. In 1974, figures were $863 million (U.S. exports) and $767 million (U.S. imports) respectively. Figures for these two years could be misleading, however, because, traditionally, the United States has had an unfavorable balance of agricultural trade with Mexico despite an overall trade balance favorable to the U.S. Developments in Mexican agriculture after the late 1960's—some of these will be explained shortly—resulted in changed circumstances. Specifically, 1974–75 and 1975–76 were bad crop years in Mexico; also, U.S. demand, because of recession, was depressed for imports from Mexico. Figure 1 in the Appendix demonstrates trade balances since 1960. Tables 1 and 2 in the Appendix contain data on U.S. agricultural exports to and imports from Mexico during the 4-year period 1972–1975.

The U.S. market normally takes more than 50% of Mexico's agricultural exports, but the Mexican market is not nearly so vital to our farmers and ranchers in relative terms. In certain years, Mexican tomatoes are also highly

*I am especially indebted to the Rockefeller Foundation, Drs. Donald Winkelmann and Elwin J. Wellhausen; Mr. James Truran and Mr. O. H. Goolsby, Foreign Agricultural Service, USDA; Dr. Norman Oebker, Department of Horticulture, The University of Arizona, and Mr. George Uribe, West Mexico Vegetable Distributors Association, among many others, for assistance in gathering selected materials. Titles of some leading source materials on Mexican agriculture and related matters are shown in the appendix.

competitive with those from Florida during the winter season. I have demonstrated this with Figures 2–5 in the Appendix.

Cotton production in Mexico, the principal competitive crop to U.S. producers on the international market, took a dramatic plunge in 1975, and in 1976 production was only approximately half the 1966–69 average.

With respect to livestock and meat, U.S. imports from Mexico to the U.S. are picking up briskly after a dramatic slowdown over the past several years. In October 1976, these exports were at the highest monthly level since December 1973. Estimation is that more than 400,000 head of cattle entered in 1976, three times as many as in 1975. U.S. imports of cattle and calves from Mexico reached an all-time high in 1970, when 937 thousand head crossed the border. In 1975, this had decreased to 196 thousand head (see Table 3 in the Appendix). Recession in the U.S. cattle feeding industry beginning in 1973 was the principal cause for this decline. Cattle feeding is also on the increase in Mexico. In addition, the Government of Mexico established meat export quotas to increase domestic consumption.

THE DEVALUATION ISSUE

In a nutshell, this is how the immediate impact of devaluation on Mexican agriculture can be interpreted:

Fruits and Vegetables.—The 1976–77 vegetable trade, entering its heaviest marketing period just now, is described as being little better than last year. Some of the plantings for this season's crop occurred before the devaluation. Growers in Mexico base many of their decisions on dollars, since the crop is sold for dollars and inputs of some fertilizers and pesticides are purchased in dollars. Local labor costs will decrease in the short run with the devaluation and labor intensive crops such as asparagus should be somewhat more competitive in the U.S. and in international trade.

Meat and Livestock.—U.S. imports of both meat and live animals from Mexico are up sharply since the first devaluation, both from 1975 levels and from the first three quarters of 1976. During 1975, Mexico exported 31 million pounds of meat to the United States. For 1976, this is expected to reach 52 million pounds, thus fulfilling their quota under the meat import law, with a substantial portion being shipped since September 1. Live cattle shipments have also increased substantially during 1976, after several years of declining trade. The devaluation made U.S. prices more attractive to Mexico producers, reversing the situation present for the past few years. The increased rate of shipments is expected to continue through at least the first half of 1977, but should not have a significant impact on U.S. cattle numbers or meat prices. It is not expected that this will continue into 1978, however, as the domestic market for beef in Mexico should absorb increased amounts.

Grains.—Plantings of wheat in the Yaqui valley are down this year and there are estimates of a shortfall of up to 500,000 metric tons. This figure is estimated as being the upper limit, however, and the actual deficit should be substantially lower. Water availability will be almost as important as the expropriation issue in wheat production.

Cotton.—The area planted and production for the 1976–77 season should be about 250,000 hectares and 950,000 bales, respectively, a slight increase from the low level of the previous year. Plantings and production in 1977–78 may increase substantially due primarily to the sharply increased domestic prices and the anticipation that export controls and higher taxes will not be applied.

OVERALL INTERPRETATION: AGRICULTURE

Limits of time and space permit only a most cursory examination of the fundamental trends in Mexican agriculture. One instructive interpretation is presented by Dr. Edwin J. Wellhausen in *Scientific American*, September 1976.

The Mexican government has a three-fold agricultural policy: (1) to produce enough food and fiber to meet the needs of a growing population; (2) to raise crops that can be exported to bolster foreign exchange; (3) to increase the income and general welfare of the rural people. What has been Mexico's record in recent years in meeting these policy requirements?

During the 1930's and early 1940's, food production in Mexico had become stagnant. By 1945, the country was importing between 15 and 20 percent of its cereal grains, mainly corn and wheat, to help supply the food demands of its 22 million people. This situation changed drastically in the next two decades, when there was a striking surge in the production of basic food grains. By 1960, food deficits had disappeared. By 1963, the supply of food began to exceed the domestic demand, and during the next five years considerable quantities of corn and wheat were exported.

Then, in the late 1960's, this dynamic growth began to lose momentum, and by the early 1970's Mexicoo was again importing between 15 and 20 percent of its basic food grains.

As to the reasons for this rise and leveling off of productivity in Mexican agriculture and as to the future prospects, there are some reasonable differences of opinion. Before getting to a diagnosis of these, some attention should be given to the data which are derived from *The Agricultural Sector: Behavior and Strategy for Development*, Secretaria de Presedencia, 1976. Drs. Donald Winkelmann and Jose Silos assisted in the rapid availability and interpretation of this information.

Growth in overall Mexican agricultural productivity i.e., agricultural efficiency during the decade 1960–70 was at the rate of 4.9 percent per year; in the irrigated areas it was 5.8 percent; in the nonirrigated, 4.6 percent. In the five-year period 1970–74, the overall productivity increase was only 1.8 percent per year. The irrigated areas continued to increase at the rate of 6.7 percent annually; but nonirrigated area productivity actually declined at a –0.8 percent annual rate.

Similarly, yield data demonstrated stagnancy or decline for 1970–74 in rates of growth over that of the two decades before 1970. Yields in Mexican agriculture as a whole grew at a rate of 3.3 percent per year between 1960 and 1970; in irrigated areas they increased at a rate of 5.4 percent annually; in nonirrigated areas at a 2.6 rate. Turning to the period 1970–74, the rate of growth in yields for all agriculture was only 1.1 percent; for the irrigated areas 1.1 percent; for nonirrigated, 1.2 percent.

Net exports of Mexican agriculture increased noticeably until 1969, but were zero by 1974. Moreover, the terms of trade had turned demonstrably against Mexican agriculture, mainly because of a slowdown in productivity and the relatively higher prices of Mexican agricultural exports on world markets.

It is difficult to explain completely the causes of this slowdown and stagnation. Unusual cold in the highlands and bad weather in the west coastal areas in 1974–75 and 1975–76 were a major crop reduction factor. During the latter period political uncertainty was damaging. But there are, no doubt, other factors in the stagnation in addition to weather and politics.

Lack of investment in the agricultural sector cannot bear the blame for the slowdown in productivity. Agricultural investment rose from 6 percent of the federal budget in 1960 (580 million pesos) to 12 percent in 1970 (2,970 million pesos), and, further, to 16 percent (10,190 million pesos) in 1974. Nor can the lack of fertilizer be blamed. Its use increased at the rate of 10 percent per year from 1970 to 1974.

It is estimated that domestic consumption of agricultural products in Mexico will increase at the rate of 4.7 percent per year until 1982. Population growth is estimated at 3.6 percent annually during this same period. With the already noted slowdown in agricultural productivity this will necessitate increased food imports, particularly corn. Of the 10 million tons annually consumed, it is estimated that about 2 million will be imported, probably all from the U.S. Mexico will have to sell more to the U.S. to obtain the dollars. The most likely agricultural products available for this export role are fresh fruits and vegetables and complementary products, such as coffee.

OBSTACLES TO INCREASED PRODUCTION

Further acceleration of food production in Mexico must take account of several facts. The great strides in yields and total production of the post-World War II period came in the relatively small, progressive modern sector of the agricultural economy. Cognizance must be taken that the technology-based agricultural revolution, which appears to have run its course in irrigated areas, incorporated, in addition, highly specialized managerial techniques as well. Those who expect or hope for a similar experience in the traditional farming sector or nonirrigated areas are, in my opinion, underestimating the time necessary to transfer and adapt management and technology to these other agricultural areas. This time lag, of course, can be shortened through the application of proper stimuli.

More land is available in the nonirrigated areas, but its development will be costly. Wellhausen estimates that 150,000 hectares of new land could be brought into year-round crop production almost immediately and 3 million hectares within a decade. Marginal costs of production on such land would, no doubt, be very high.

Maintaining and/or increasing production in the modern and irrigated sectors will be affected by the limited supply of water and its irregularity. Although this sector, with more than 70 percent of the irrigation facilities, can produce more, the great gains of the past should not be expected.

The Mexican Government is expected to continue its strenuous effort to stimulate additional food production. Assistance will take several forms: More practical on-farm research, especially on corn and beans, to determine precise fertilizer requirements and agronomic practices which are most economic for each of the ecological regions in the traditional farm areas. Second, the Government will continue to assist in the provision of modern inputs, including operating credit. Third, it will provide stability on the demand side by intervening with price supports and other mechanisms attendant to marketing and distribution intranationally as well as internationally. Finally, economic development assistance will include major capital investment to bring additional land under cultivation.

INTERNATIONAL TRADE AND AGRICULTURE

As I have already pointed out, the short-to-intermediate-term deficit in Mexico food production, namely, in grains, coupled with growth in population and effective demand, will create a need to import an estimated 10 to 20 percent of its needs. The magnitude of this needed importation will depend on domestic production and supply conditions. For example, the 1975–76 recovery over 1974–75 in the production of corn, wheat grain sorghum, rice and dry beans was instrumental in reducing agricultural imports from the U.S. from $863 million to $567 million.

It is likely that the deficit in food production will be made up principally from U.S. supplies. To pay for these supplies in dollars, which cost 40 percent more than in the past two decades, the pressure will be on to export more. We have already seen this in the dramatic increase in meat and livestock exports during late 1976. Obvious limits to livestock and meat exports are the lack of elasticity in the range livestock industry in northern Mexico and the Mexican meat export quota. United States import quotas on Mexican beef should be no obstacle. Reports are that intentions to plant vegetables in 1977–78 are spurred upward by better prices in the current deal. Coffee exports in the meantime are booming.

United States trade with Mexico in the short-term is clouded by peso devaluations. The effects of devaluation will be offset to some extent by the new export taxes and reduction in import duties announced on September 8. The Mexican Government stated that these measures were necessary to prevent a rise in internal prices and to divert to the national treasury part of the windfall profits arising from devaluation. These taxes will be repealed when the competitive situation no longer warrants them, according to the government statement. The reduction in import duties was also announced as a temporary measure. In addition, the former export tax rebate for processed agricultural goods is to be repealed. Anticipated internal wage and price increases will further erode exporters' gains from the new peso value.

Under the new exchange rates, export duties from most unprocessed agricultural products have been set at 18 percent. For manufactured products, duties have been set at 6.5 percent—a figure that also applies to processed citrus and tomatoes, fresh and frozen strawberries, and certain sugar and confectionery items. However, the 18 percent rate will apply to raw and refined sugar, as well as to cotton. Unprocessed coffee will pay a 38 percent rate. The rates are subject to change, however, as they are constructed on a sliding scale, dependent on the value of the peso.

On the import side, duties have been reduced for a number of commodities in order to keep food and other prices from rising. (See table below.)

MEXICO: SELECTED IMPORT DUTIES

[In percent]

Commodity	Rate prior to Sept. 8, 1976	Rate after Sept. 8, 1976
Breeding sheep, swine	10	(1)
Fresh and frozen beef	20	10
Fresh citrus	75	35
Fresh apples and pears	75	35
Soybean flour	50	(1)
Vegetable protein (23.04.A001)	10	(1)
Vegetable protein (21.07.A999)	35	10
Condensed and evaporated milk	50	10
Popcorn	15	10
Lard	25	10
Tallow	25	10
Fruit cocktail	100	20
Orange juice	100	20
Unmanufactured tobacco	100	10
Wines, other than fine wines	100	35
Raw hides and skins	10	(1)

[1] Free.

Source: FAS, USDA.

Now that the peso has been devalued, Mexico has two economic options. The benefits of devaluation may be offset if domestic wages and prices increase to any great extent, or if other financial policies are instituted which inhibit exporters from lowering—or at least holding constant—their prices in the world market. Some of the policies mentioned previously will have this effect. If prices do rise substantially, another devaluation could become necessary.

Mexico's other option is to keep wages more or less constant, reaping the benefits of devaluation. In the long run, this is the more viable economic alternative, but it implies a higher cost of living and slower economic growth than in recent years—a difficult position to take. Mexico's population is growing at an annual rate of 3.6 percent, one of the highest in the world. Slower economic growth could mean a decline in average incomes in a country where incomes are already very low for many people.

Over the long pull, large oil reserves provide one of the brightest spots in Mexican international commerce. Dollar earnings here can help offset deficits generated by food imports.

With respect to trade policy, it is hoped that Mexico would participate as a full member in the GATT negotiations in Geneva. At present, most deliberations must be conducted bilaterally, which is not only time-consuming but permits more distortions to creep into the international network of trade in agricultural and other products and materials.

POPULATION, MIRGATION, LAND REFORM

I shall outline only a brief treatment of the socio-economic issues. Population, migration and land reform—like all other issues which relate to national culture—are highly complex. Here, I shall try to limit my discussion to the economics of such issues.

The vacuum created between a high population growth rate, low marginal output of labor and low wages in Mexico, while the opposite exists in the U.S., results in a "natural" spilling of people over the border. The same is true between regions in Mexico. Disturbances which increase differentials and which create greater disequilibria will accelerate the migration. Thus, I would suspect the devaluation will result in further pressure by the Mexican population to go, legally or illegally, where wages are higher and standards of living are better.

I would like to paraphrase from the study *Mexican Migration* by Weaver and Downing: The decade of the 1960's in Mexico witnessed a widespread and fairly intensive transfer of labor out of the agricultural sector and into other sectors of productive activity. In all states the agricultural labor force declined relative to other sectors, and in most states this involved a decline in absolute numbers as well. Many states experienced very sharp declines for the decade.

The transfer out of agricultural employment unquestionably resulted in increased unemployment and underemployment in the most densely populated rural areas, and in movements into non-agricultural activities. In addition, however, it produced sizeable intrastate, interstate, and international migration of agricultural workers. While it is difficult to document the precise number of migrants originating in the agricultural sector, the percentage of rural workers in the migrant streams is known to be very high. In addition to the long-term movements, there is a well established pattern of seasonal migration into several of the areas showing strong positive deviations, as well as into the southwestern United States. Much of this movement comes from the heavily populated south-central states.

Several lines of evidence suggest that the pattern of decline in agricultural employment will continue and perhaps intensify between now and 1985. First, Mexico clearly exhibits the prevailing modern tendency toward substitution of capital for labor in agriculture, and the Mexican Government has already demonstrated its commitment to a policy of agricultural modernization through public investment, primarily in larger-scale units. Secondly, the Mexicans have followed a policy of overall regional development emphasizing public subsidies and investments supportive of urban-oriented manufacturing. Government projects which would have slowed or reversed the declines in small scale farming have not been aggressively pursued, and some observers claim that they have been pointedly neglected. Finally, the continued expansion of non-agricultural sectors ancillary to manufacturing increasingly provides economic alternatives to agriculture.

Declining labor productivity in agriculture in the early 1970's only exacerbated these phenomena and the rural, as opposed to the purely farm, population has continued to grow at a rapid rate. The pressure build up is, therefore, intense. I, thus, cannot agree entirely with the statement ". . . even small-scale market-oriented agriculture is thus rendered less attractive to Mexico's rural population." (Weaver and Downing, p. 74.) This is what the "squatting" is all about! The masses may be deluding themselves but, for equity reasons; i.e., income distribution they see themselves as being better off individually if they can grab the land.

The land tenure issue came to a head with the takeover of almost 100,000 hectares of land in Sonora which were redistributed to campesinos on November 19. This included about 38,000 hectares of prime irrigated land, mostly wheat land in the Yaqui valley. Efforts to take over some 40,000 hectares in Sinaloa were delayed by court injunctions until mid-December, but producers there agreed to donate some 10,000 hectares of irrigated land to the ejidos. Land invasions will continue to be a major problem in Sinaloa, Durango and some other states. (The press reported that some 490,000 hectares were delivered to campesinos on the last day of President Echeverria's term. These, however, are mostly unproductive range lands in the northern state of Chihuahua, Durango and Sonora which were purchased or reclaimed by the government in recent years—including ejido lands not being worked.)

From all external appearances, the new administration of President Lopez Portillo is going to take a "go slow" attitude with respect to land distribution. The principal reason for this is the danger in the short run for cutting off export earnings and the danger in the long run for frightening off foreign capital.

The new Secretary of Agriculture, Francisco Merino Rabago, and the Under Secretary for Livestock have considerable experience in the agricultural credit field. The new Subsecretary for Agriculture, Ing. Benjamin Ortega Cantero, was the former Director General of Plant Sanitation and has worked closely with the USDA in cooperative plant protection programs. The new team is expected to continue government efforts to expand production of basic food crops.

As a long-run measure, the Water Resources Bureau has announced that the completion of 3 dams in Sinaloa during President Lopez Portillo's tenure will bring 10,000 hectares of new land under irrigation and improve 80,000 hectares currently under irrigation. The state of Sinaloa has some 543,000 hectares under irrigation.

In any event, rural population pressure continues to grow. I question whether, as some believe, it will be easier to convert the subsistence population in the marginally productive regions into a reasonably productive agricultural labor force than to try to incorporate them into alternative job opportunities. Experiences all over the world testify to the expensive nature of job creation in agriculture. As a political expedient, keeping the masses pacified in rural areas may work. As an economic solution, it is questionable.

SUGGESTIONS

In the near term, the most appropriate way to increase agricultural production in Mexico will be for the new president to try to eliminate uncertainty in the land tenure situation. This must be followed by policies to transfer inputs to the productive agricultural sector and to stabilize incomes at levels to provide adequate return on investment.

A liberal trade policy between the U.S. and Mexico is a necessary adjunct to Mexico's progressive farm policy. Inordinate levels of self-sufficiency, protectionism and trade obstruction are not in Mexico's long-range best interest. The U.S. should cooperate in the development of such a policy, particularly in the elimination of nontariff trade barriers.

Long-range, large-scale economic development is the ultimate factor which will result in fundamental solutions to Mexico's problems which will, in turn, take pressure off border areas. To further this development, Mexico may well open its doors to, and encourage, massive doses of foreign investment. But, I will not comment on proposals to dramatically reduce the growth rate of Mexico's population through massive international migration. Even if it could work, it would be but a temporary palliative for Mexico's fundamental problems.

91-139 O - 77 - 25

Appendix

TABLE 1.—U.S. AGRICULTURAL EXPORTS TO MEXICO: QUANTITY AND VALUE BY COMMODITY, CALENDAR YEARS 1972–75

[In thousands]

Commodity	Unit	Quantity 1972	Quantity 1973	Quantity [1] 1974	Quantity 1975	Value 1972	Value 1973	Value [1] 1974	Value 1975
Animals, live:									
Cattle	Number	17	31	63	115	$8,308	$16,960	$27,426	$32,007
Horses	do	(2)	(2)	(2)	(2)	179	382	213	338
Poultry, including baby chicks	do	1,507	950	698	542	1,989	1,719	1,288	1,038
Sheep, lambs, and goats	do	94	58	229	174	955	577	2,963	2,200
Swine	do	3	5	7	3	307	573	1,344	617
Other live animals						7	21	39	14
Meats and preparations:									
Beef and veal, fresh or frozen	Pounds	119	63	663	904	108	58	654	770
Edible offals, fresh or frozen	do	20,179	34,202	47,078	34	2,891	6,348	12,118	8,241
Pork, fresh or frozen	do	974	1,450	1,239	1,604	123	378	534	514
Poultry meat, fresh or frozen	do	1,125	1,372	1,569	1,405	514	1,345	1,818	3,915
Other	do	1,125	1,372	1,569	3,854	520	501	925	1,914
Dairy products and eggs:									
Cheese	do	103	177	252	450	77	137	196	393
Milk and cream, dry	do	2,319	2,477	4,780	1,918	448	332	625	924
Milk, dry skim, excluding relief	do	73,149	631	861	478	12,351	202	328	130
Milk, evaporated or condensed	do	36,673	38,074	36,329	----	6,303	7,165	8,102	12,518
Eggs, in shell	Dozens	368	299	366	1,003	174	250	307	749
Milk, dry skim, relief	Pounds	6,373	495	0	445	1,507	181	0	119
Other						68	380	711	1,028
Grains and products:									
Barley, unmilled	Bushels	246	2,578	8,280	3,581	327	5,320	26,202	36,951
Corn, unmilled, excluding seed	do	7,347	32,615	54,568	58,347	12,691	78,556	194,148	200,612
Corn, seed, excluding sweet corn	do	206	79	809	215	246	390	3,288	1,100
Grain sorghum, unmilled, excl. seed	do	9,511	718	17,752	19,975	13,873	1,062	55,278	62,489
Grain sorghum, seed	do	339	465	454	326	2,102	3,329	3,557	3,000
Oats, unmilled	do	281	266	401	----	305	327	685	1,580
Popcorn, unpopped	Pounds	NA	11,918	11,973	----	NA	978	1,407	1,944
Rice, milled or unmilled	do	1,902	916	174	----	179	91	33	317
Wheat, excluding relief, unmilled	Bushels	[3] 22,951	25,755	37,246	----	[3] 43,679	72,783	181,521	12,879
Grain products:									
Malt, malt flour	Pounds	2,612	3,485	882	----	169	260	160	588
Oatmeal	Hundredweight	11	26	0	0	73	115	1	----
Wheat flour	do	31	33	24	20	109	87	92	161
Other						1,642	3,162	858	9,291
Fruits and nuts: Fresh fruits:									

Apples ... Pounds	13,272	11,044	14,997	----	923		1,863	2,496
Grapes ... do	769	464	878	953	----	60	133	165
Lemons and limes ... do	2,247	1,058	2,364	1,912	123	85	192	166
Oranges and tangerines ... do	130	184	153	1,147	8	14	20	100
Peaches and nectarines ... do	2,789	1,911	2,420	2,086	150	136	360	354
Pears ... do	1,460	2,769	3,711	4,452	173	325	502	657
Tropical fruit, n.s.p.f. ... do	1,857	4,755	5,548	8,255	362	948	1,447	299
Other ...	----	----	----	----	121	141	281	299
Prepared fruits:								
Fruit juices ... Gallons	259	464	601	612	171	281	406	594
Prunes, dried ... Pounds	2,063	2,008	1,807	----	344	329	379	786
Raisins, dried ... do	2,665	863	614	581	340	194	93	94
Other prepared fruits ...	----	----	----	----	751	1,173	812	1,257
Nuts:								
Almonds, shelled or unshelled ... Pounds	1,474	863	1,185	2,255	736	555	897	1,178
Pecans ... do	107	24	134	484	44	14	68	277
Walnuts, shelled or unshelled ... do	318	333	376	406	100	117	141	141
Other ... do	180	525	480	994	115	369	452	320
Vegetables and preparations: Fresh vegetables:								
Carrots ... do	723	1,322	1,041	709	47	62	75	63
Celery ... do	745	874	736	909	42	59	77	119
Lettuce ... do	2,200	1,776	2,449	1,836	106	107	209	180
Potatoes ... do	14,792	16,640	30,351	17,944	347	532	1,506	630
Tomatoes ... do	508	535	1,992	----	10	48	226	213
Other ...	----	----	----	----	215	166	222	336
Prepared vegetables:								
Beans, dried, excluding seed ... Pounds	8,100	21,367	113,727	112,531	813	----	30,906	31,959
Seed beans ... do	1,919	4,016	852	1,021	819	861	414	510
Hops ... do	1,593	963	1,905	1,553	----	746	1,596	1,876
Peas ... do	2,201	2,300	1,870	1,264	258	270	355	315
Other ...	----	----	----	----	850	1,240	1,641	1,872
Sugar, sirup, confectionery ... Pound	5,765	6,521	7,809	3,834	1,238	1,600	2,479	1,576
Coffee, cocoa, tea, and spices ... do	1,599	2,333	3,385	2,633	897	1,185	2,009	2,116
Animal feed:								
Oil cake and meal ... Short ton	54	48	61	28	5,742	9,143	8,812	4,211
Other ... do	49	38	144	87	4,105	4,196	14,615	10,604
Animal fats and oils:								
Lard, edible ... Pound	26,306	41,647	51,351	53,731	3,505	7,151	12,612	14,533
Lard, stearin, inedible ... do	4,643	5,610	27,186	916	491	931	6,469	330
Tallow, edible ... do	59	12,845	31,880	1,800	6	2,092	6,235	347
Tallow, inedible ... do	4,642	37,535	45,023	61,649	286	4,087	9,679	11,538
Other ... do	2,471	3,547	2,706	2,519	419	695	815	777
Sausage casings, hog ... do	996	1,474	2,619	2,673	427	625	1,145	1,156
Beverages, fermented ... Gallon	52	74	79	47	202	240	190	145
Tobacco ... Pound	13	3	2	----	13	1	1	----
Hides and skins:								
Cattle hides, whole ... Number	1,703	1,964	2,497	2,350	23,378	34,696	35,481	25,700
Other ...	----	----	----	----	1,679	1,462	1,203	2,812

See footnotes at end of table.

TABLE 1.—U.S. AGRICULTURAL EXPORTS TO MEXICO: QUANTITY AND VALUE, BY COMMODITY, CALENDAR YEARS 1972–75—Continued

[In thousands]

Commodity		Quantity				Value			
		1972	1973	[1] 1974	1975	1972	1973	[1] 1974	1975
Oilseeds:									
Cottonseed	Pound	743	15,853	84,224	6,772	115	938	6,801	570
Soybeans	Bushel	659	2,993	12,375	781	2,061	17,185	81,597	6,701
Soybean flour, nondefatted	Pound	21,843	130,883	72,679	10,201	1,350	16,358	7,145	1,222
Other						35	159	176	154
Cotton linters	R. bale	21	27	26	21	385	742	1,286	1,181
Seeds, nursery stock:									
Alfalfa seed	Pound	4,585	5,934	4,825	4,458	1,972	3,452	5,714	4,20
Seed, other	do	8,277	16,209	14,072	7,679	3,324	5,21u	7,110	5,78
Nursery stock						816	1,154	1,382	1,595
Vegetable oils:									
Cottonseed oil	Pound	7	57,628	14,871	1	1	10,908	3,271	
Soybean oil	do	212	44,461	192,220	52,399	27	6,437	53,374	18,149
Other	do	725	8,923	95	20	131	1,773	32	13
Essential oils	do	320	353	471	366	1,396	1,690	2,905	2,919
Miscellaneous vegetable products:									
Hop extract	do	233	496	584	390	823	399	1,755	1,225
Lecithin	do	3,076	2,773	3,435	602	347	359	881	1,18
Soups and sauces	do	7,426	8,050	34,541	10,852	1,379	1,808	2,670	2,766
Other food preparations						2,341	3,412	5,700	5,700
Starches, albumen, glue, gelation	Pound	2,390	2,186	1,905	2,154	1,098	1,438	1,503	2,327
Other						2,772	3,651	5,652	8,955
Total agricultural exports						182,735	361,985	862,646	587,337

NA—Not available.
[1] Preliminary.
[2] Less than 500.
[3] Includes transshipments through Canada of 713,078 bushels valued at $1,309,000.

Source: FAS, USDA.

TABLE 2.—U.S. AGRICULTURAL IMPORTS FROM MEXICO: QUANTITY AND VALUE BY COMMODITY, CALENDAR YEARS 1972–75

[In thousands]

Commodity	Quantity				Value			
	1972	1973	1974	1975	1972	1973	1974	1975
Animals, live:								
Cattle and calves, less than 200 lbs. Number	42	15	3	1	$3,004	$1,349	$309	$41
Cattle, 200–700 lbs. do	870	635	396	190	102,773	96,362	59,096	23,152
Cattle, over 700 lbs. do	4	23	35	5	1,004	6,488	8,374	1,858
Other live animals	---	---	---	---	27	43	75	---
Meats and preparations:								
Beef; fresh, chilled, or frozen. Pounds	78,315	64,993	38,036	29,721	46,174	50,091	30,354	18,545
Veal; fresh, chilled, or frozen. do	3,555	1,996	769	42	2,047	1,555	743	24
Mutton; fresh, chilled, or frozen. do	0	265	1,613	---	0	216	1,195	---
Pork; fresh, chilled, or frozen. do	4,019	0	0	---	1,405	0	0	---
Horse meat, uncooked. do	5,584	3,995	1,990	289	745	761	399	88
Other meat, including edible offals. do	287	526	422	---	48	120	119	133
Eggs: Chicken eggs in shell. Dozens	0	0	0	0	0	0	0	0
Grains and preparations:								
Biscuits, cakes, and bakery products. Pounds	1,141	2,163	1,878	4,218	306	603	444	1,558
Cereal foods and preparations. do	1,617	4,819	1,692	317	65	242	134	41
Macaroni. do	547	2,543	4,346	7,282	130	518	944	1,728
Wheat gluten. do	720	960	950	1,348	187	306	443	472
Other grains and preparations	---	---	---	---	147	160	264	489
Wheat, unmilled, including seed. Bushels	1	33	124	586	8	149	976	4,711
Fruits and preparations:								
Bananas and plantains, fresh. Pounds	7,210	7,025	9,330	10,688	266	253	422	579
Berries:								
Strawberries, fresh. do	42,074	37,623	43,137	39,715	7,088	7,032	7,779	6,789
Strawberries, frozen. do	81,157	106,678	109,417	83,558	12,278	22,863	25,246	19,174
Strawberry paste or pulp. do	7,572	9,464	7,559	5,457	911	1,698	1,376	1,125
Other berries. do	1,884	3,495	1,616	---	254	643	314	1,637
Grapes, fresh. do	4,902	6,894	3,674	6,165	453	801	514	800
Grapefruit, fresh. do	6,812	6,455	6,182	4,858	857	920	832	743
Limes, fresh. do	3,344	4,644	6,795	3,472	291	414	325	1,251
Mangoes, fresh or prepared. do	6,059	6,938	12,066	---	1,391	1,935	2,762	3,653
Melons:								
Cantaloupes, fresh. do	153,481	156,607	166,640	38,532	8,992	10,518	11,485	12,739
Watermelons, fresh. do	158,823	167,372	165,583	---	3,426	4,162	4,570	6,018
Other melons, fresh. do	16,105	25,310	33,728	16,465	540	1,415	2,148	1,269
Oranges, fresh. do	92,043	99,404	81,343	49,037	5,358	6,884	6,532	4,081
Pineapples, fresh	---	---	---	---	432	499	421	1,241
Pineapple, canned or prepared, excluding jam. Pounds	28,150	24,949	20,745	19,222	3,516	3,076	4,284	4,463

See footnotes at end of table.

TABLE 2.—U.S. AGRICULTURAL IMPORTS FROM MEXICO: QUANTITY AND VALUE BY COMMODITY, CALENDAR YEARS 1972–75—Continued

[In thousands]

Commodity		Quantity				Value			
		1972	1973	1974	1975	1972	1973	1974	1975
Fruit juice:									
Apple	Gallons	87	1,322	3,185	----	122	1,195	1,110	----
Lime	do	209	138	147	795	192	98	94	416
Orange	do	5,726	5,925	5,160	3,315	2,361	2,391	2,096	1,442
Other	do	63	166	266	275	49	92	155	287
Jellies, jams, pastes, excluding Strawberry	Pounds	4,791	3,902	----	----	971	1,274	1,683	1,231
Other fruits and preparations	do	----	----	----	----	240	166	448	374
Edible nuts		----	----	----	----	302	164	316	308
Vegetables and preparations:									
Fresh, chilled, or frozen:									
Asparagus	Pounds	NA	7,284	9,109	----	NA	1,454	1,788	2,496
Beans	do	17,668	14,720	14,693	----	2,301	2,063	1,638	1,314
Carrots	do	10,413	5,929	9,563	----	208	311	385	344
Cucumbers	do	154,064	166,483	167,865	----	13,149	14,468	8,059	5,868
Eggplant	do	28,806	39,157	26,301	----	3,319	4,175	1,332	1,308
Garlic	do	6,861	10,584	15,502	----	1,754	2,596	3,474	4,075
Okra	do	5,203	6,625	7,665	----	479	534	639	355
Onions, excluding sets	do	57,305	124,189	90,347	----	4,875	9,095	7,077	6,846
Peas	do	5,257	6,434	7,656	----	1,002	1,300	1,086	806
Peppers	do	60,948	88,363	86,583	----	10,881	16,132	9,124	7,928
Radishes	do	1,496	2,128	3,558	----	111	184	337	404
Squash	do	36,814	38,700	41,925	----	4,981	4,838	2,130	1,893
Tomatoes	do	582,284	749,121	590,601	----	88,150	115,138	64,071	64,132
Other fresh or frozen vegetables	do	35,157	31,906	40,777	----	4,403	3,836	5,388	4,217
Dried or prepared:									
Artichockes, prepared	do	223	693	125	----	24	95	26	23
Asparagus, prepared	do	4,011	3,282	4,546	----	1,173	1,102	1,739	2,428
Beans, dried	do	849	2,072	1,329	----	99	257	228	306
Chickpeas, prepared	do	8,357	7,224	11,147	----	1,081	1,104	1,799	1,105
Mushrooms, canned	do	472	232	126	----	260	142	78	7
Tomatoes, canned, excluding paste	do	540	5,650	3,970	----	178	515	458	537
Tomato paste and souce	do	4,727	4,938	4,931	----	670	817	2,200	804
Other prepared vegetables	do	30,519	32,298	----	----	3,090	3,675	5,949	6,780
Sugar and related products:									
Sugar, cane or beet	do	1,288,853	1,255,044	1,071,307	----	101,564	108,681	229,218	20,557
Molasses, inedible	Gallons	116,426	119,232	110,726	----	15,035	34,012	37,282	----
Honey	Pounds	20,632	4,454	3,768	----	3,974	1,400	3,424	----
Candy, confectionery products	do	603	942	3,668	----	140	177	1,053	----

Coffee:									
Coffee, green	do	141, 485	217, 098	175, 117	219, 834	60, 872	121, 650	107, 143	133, 030
Coffee, roasted or ground	do	13, 905	10, 432	5, 258	6, 567	6, 426	5, 931	3, 962	5, 386
Coffee, soluble	do	742	603	42		742	676	38	
Cocoa:									
Cocoa beans	do	27, 022	19, 552	4, 154	1	6, 330	6, 205	1, 707	1
Cocoa butter	do	4, 956	5, 560	5, 145	3, 333	2, 392	4, 667	6, 463	3, 990
Cocoa powder and cake, unsweetened	do	2, 384	3, 127	1, 720		278	378	281	
Chocolate	do	551	517	822	1, 046	214	199	381	503
Spices:									
Oregano	do	1, 378	2, 197	2, 245	2, 762	250	457	826	1, 142
Paprika	do	1, 540	1, 019	2, 022	1, 357	402	255	1, 203	1, 318
Pepper, red or capsicum	do	4, 158	5, 527	6, 776	3, 750	1, 044	1, 514	3, 031	2, 442
Vanilla beans	do	26	13	22		126	66	119	
Other spices	do	267	526	856	857	121	128	278	413
Animal feeds:									
Oil cake and meal	do	18, 568	21, 337	5, 883	3, 883	252	497	103	129
Other animal feeds	do	2, 041	5, 182	4, 463	2, 002	480	1, 334	1, 479	855
Beverages:									
Beer, ale	Gallons	1, 545	2, 062	3, 153	3, 427	1, 897	2, 634	4, 447	5, 603
Wine	do	36	56	37	17	78	172	127	81
Tobacco, unmanufactured	Pounds	5, 292	10, 605	20, 538	14, 546	3, 997	8, 842	16, 137	11, 043
Oilseeds:									
Sesame seed	do	23, 194	23, 339	15, 780	14, 546	4, 470	5, 223	6, 221	5, 754
Other oilseeds	do	75	140	133	182	7	25	23	53
Fibers:									
Cotton, raw	do	9, 211	2, 018	6, 451	16, 701	2, 833	699	3, 698	9, 627
Cotton linters	do	9, 427	12, 527	3, 735	10, 966	950	1, 709	2, 892	2, 283
Sisal and henequin	Light tons	35	17	1		3, 896	3, 015	120	69
Other vegetable fibers	do	6	5	6		2, 173	2, 139	3, 074	123
Crude animal materials:									
Gelatin	Pounds	225	351	2, 164	2, 074	108	363	3, 785	2, 908
Hair bristles	do	147	107	87	84	277	189	192	176
Hides and skins						25	57	61	65
Sausage casings						566	860	1, 197	1, 750
Other crude animal materials						139	341	145	20
Crude vegetable products:									
Broomcorn	Short tons	11	12	10	12	6, 833	6, 296	10, 227	12, 713
Seeds, excluding oilseeds	Pounds	860	1, 092	1, 802	1, 442	764	817	1, 272	2, 150
Other crude vegetable products						1, 982	689	963	214
Waxes:									
Beeswax, unbleached	Pounds	362	249	371	249	263	186	469	272
Candelilla wax	do	3, 838	2, 597	3, 492	2, 212	1, 842	1, 259	1, 752	1, 099
Crude drugs	do	191	609	518	1, 457	163	232	457	614
Essential oils:									
Lime oil	do	616	633	754	621	4, 109	4, 406	6, 086	5, 511
Other essential oils	do	52	246	294	34	209	281	1, 031	768

See footnotes at end of table.

TABLE 2.—U.S. AGRICULTURAL IMPORTS FROM MEXICO: QUANTITY AND VALUE BY COMMODITY, CALENDAR YEARS 1972–75—Continued

[In thousands]

Commodity	Quantity 1972	Quantity 1973	Quantity 1974 [1]	Quantity 1975	Value 1972	Value 1973	Value 1974 [1]	Value 1975
Starches ____ do	8,152	3,122	1,622	3,314	438	186	156	360
Other agricultural products					800	1,628		
Competitive products					409,187	591,922	631,399	351,897
Noncompetitive products					90,747	151,499	134,676	156,781
Total agricultural imports					589,934	743,421	766,565	508,675

NA=Not available.

Source: FAS, USDA.

TABLE 3.—IMPORTS OF CATTLE AND CALVES FROM MEXICO [1]

Year	January	February	March	April	May	June	July	August	September	October	November	December	Yearly total
1964	44,083	47,938	44,202	53,153	21,705	3,220	3,214	1,932	1,848	3,981	39,502	66,860	331,638
1965	28,614	43,436	43,834	57,491	52,889	25,103	14,073	8,977	8,258	19,183	101,746	101,691	535,290
1966	69,027	52,913	75,584	36,619	54,358	22,507	8,675	6,554	4,830	23,990	98,471	131,071	584,599
1967	51,233	36,330	46,361	58,179	38,373	14,210	6,581	10,372	6,465	23,890	95,974	112,450	500,418
1968	60,454	46,664	60,299	81,041	60,411	25,643	16,411	13,330	6,736	36,174	116,907	178,402	702,472
1969	78,497	71,540	45,759	70,867	43,175	18,184	20,315	6,170	2,191	51,819	174,589	227,326	810,432
1970	94,605	88,577	90,818	69,376	118,741	62,302	21,417	10,799	5,210	33,592	137,540	203,606	936,583
1971	58,204	58,124	90,281	66,936	46,222	30,379	8,926	9,977	5,877	13,974	127,426	236,115	752,441
1972	102,133	78,348	140,174	64,519	41,161	15,756	26,478	11,119	3,410	42,135	163,363	227,233	915,829
1973	136,319	76,518	64,209	33,693	20,806	33,845	10,213	13,917	3,750	2,071	100,489	177,016	672,846
1974	99,859	82,232	41,423	28,745	52,921	65,000	28,624	7,317	11,476	3,096	1,390	12,660	434,743
1975	6,601	6,102	4,405	7,662	18,070	32,314	18,026	1,345	785	1,182	31,564	68,024	196,080
1976	53,240	19,127	26,546	26,035	55,668	42,937	4,803	826	968				

[1] From Census Bureau data, except for estimates.

Source: FAS, USDA.

Figure 1. United States - Mexican Trade, 1960-75.

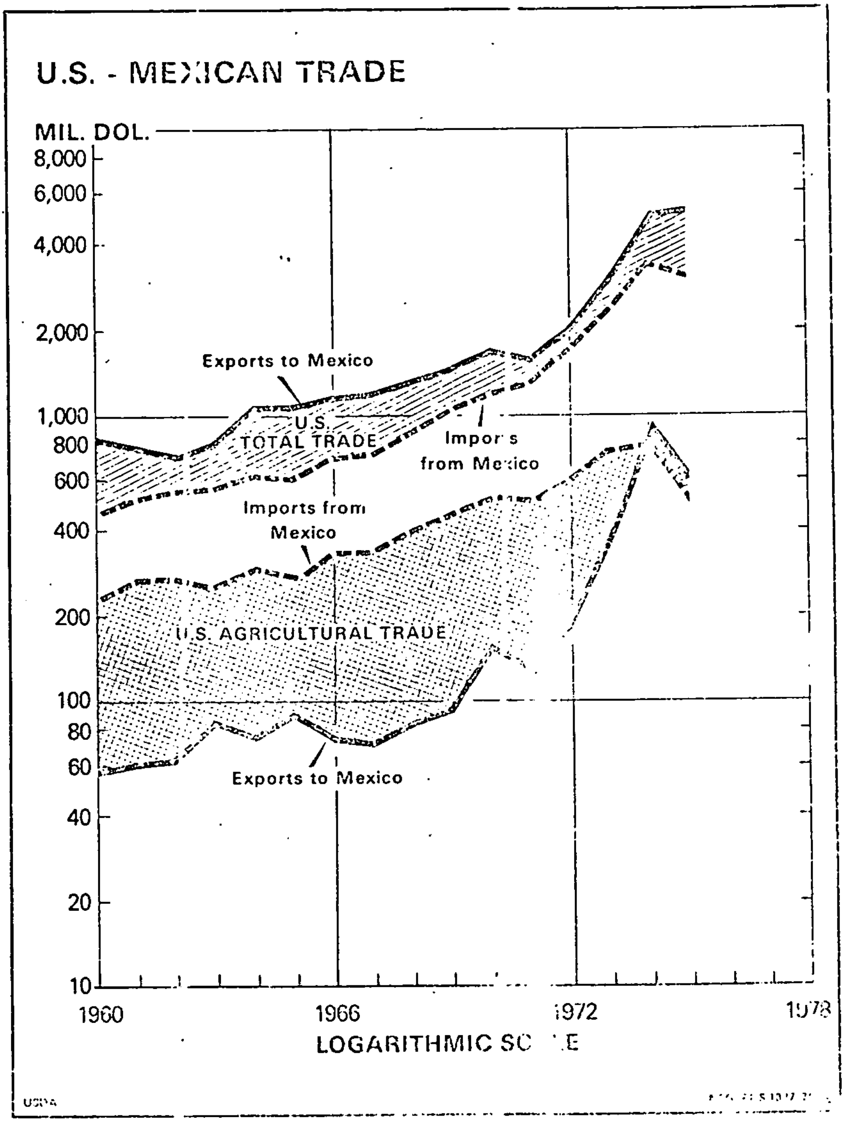


Figure 2. Daily Tomato Shipments from West Mexico and Florida, 1973–74.

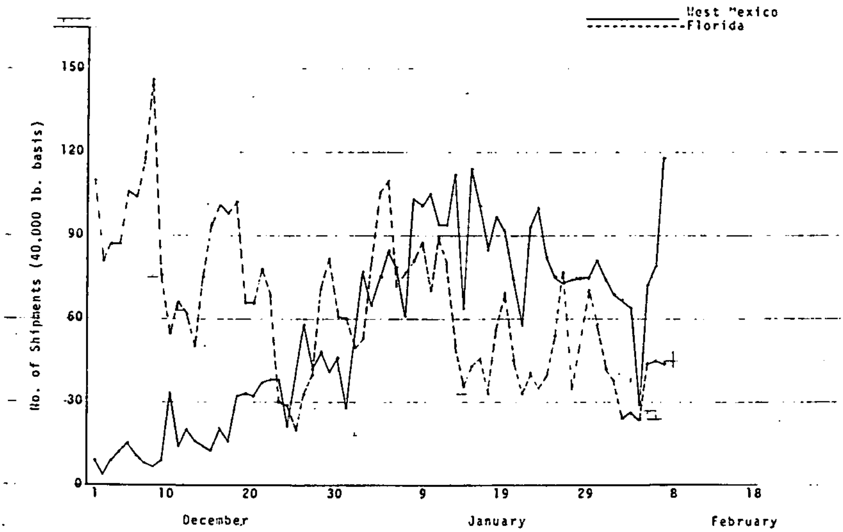


Figure 3. Daily Tomato Shipments from West Mexico and Florida, 1974–75.

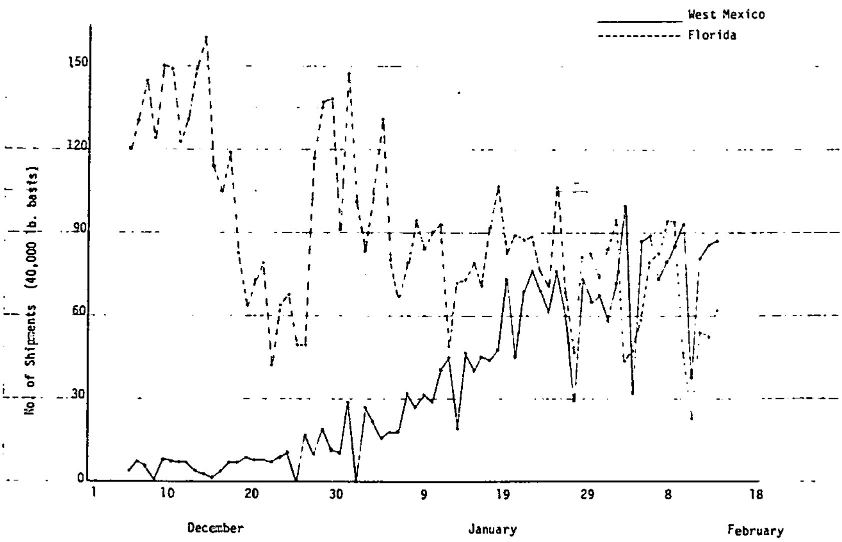


Figure 4. Daily Tomato Shipments from West Mexico and Florida, 1975-76.

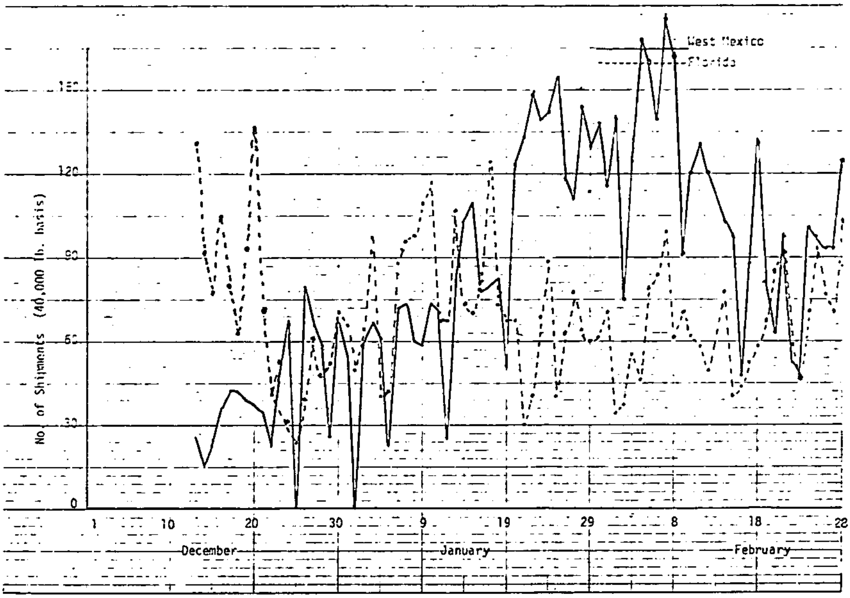
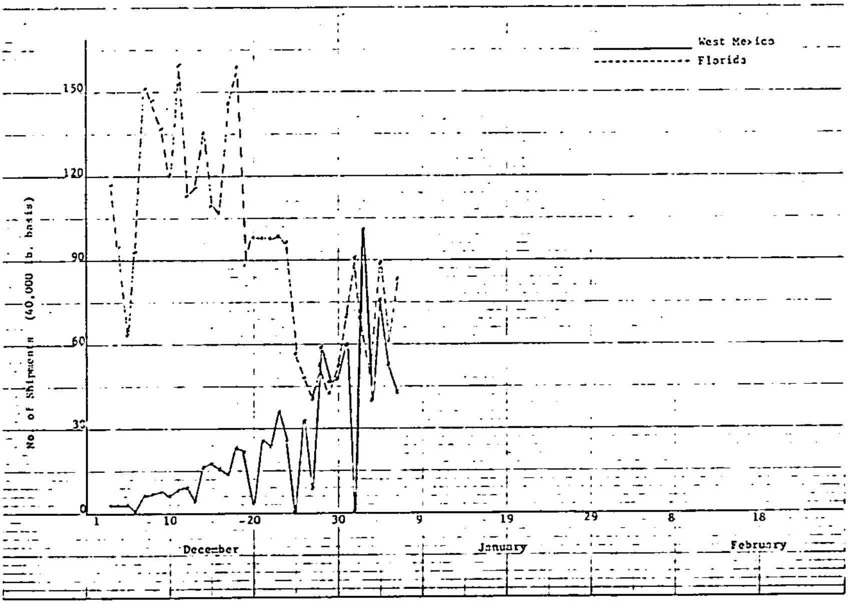


Figure 5. Daily Tomato Shipments from West Mexico and Florida, 1976-77.



BIBLIOGRAPHY

Mexican agriculture and related matters

The Agricultural Economy of Mexico, International Bank for Reconstruction and Development, International Development Association, December 20, 1969, 43 pp. plus appendixes.

Sources of Change in Mexican Agricultural Production 1940–1964, ERS-USDA Foreign Agricultural Economic Report No. 73, August, 1971, 106 pp.

The Agricultural Sector: Behavior and Strategy for Development, Secretaria de Presedencia, 1976.

Production and Trade Yearbooks, FAO Rome, Various Years.

Mexican Competition for the U.S. Fresh Winter Vegetable Market, ERS-USDA Agricultural Economic Report No. 348, August, 1976.

The Agriculture of Mexico, Edwin J. Wellhausen, Scientific American, September 1976, pp. 129–150.

Mexican Migration, Thomas Weaver and Theodore E. Downing, University of Arizona Bureau of Ethnic Research, 1976, 241 pp.

The Potential for Population Growth in the U.S. Counties That Border Mexico—El Paso to San Diego, Edwin H. Carpenter and Larry G. Blackwood, Natural Resources Journal, forthcoming issue.

Industrial Growth in the U.S. Border Communication and Associated Water and Air Problems: An Economic Perspective, Harry W. Ayer and Paul G. Hoyt, Natural Resources Journal, forthcoming issue.

"Latin American Opens the Door to Foreign Investment Again", *Business Week,* August 9, 1976.

Foreign Agriculture, FAS-USDA Weekly Magazine, various issues 1976; also various unclassified materials made available from U.S. Agricultural Attache, Mexico City.

Marketing Mexican Cattle in the United States, R. E. Seltzer and T. M. Stubblefield, Technical Bulletin, 142, Arizona Agricultural Experiment Station, Nov. 1960, 41 pp.

An Economic Study of the Winter Vegetable Export Industry of Northwest Mexico, Robert S. Firch and Robert A. Young, Agricultural Experiment Station Technical Bulletin #179, October 1968, the University of Arizona.

Representative LONG. We have a prepared statement submitted for the record by Congressman Richard C. White from the 16th Congressional District of Texas, and by Congressman Abraham Kazan, Jr., from the 23d Congressional District of Texas, a letter from Congressman Morris K. Udall, Second Congressional District, State of Arizona, as well as a statement from the Environmental Defense Fund, which, without objection, will be made a part of the hearing record at this point.

[The material referred to follows:]

PREPARED STATEMENT OF HON. RICHARD C. WHITE, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 16TH CONGRESSIONAL DISTRICT OF THE STATE OF TEXAS

Mr. Chairman, as U.S. Representative for the 16th District of Texas, which enjoys a lengthy common boundary with the Republic of Mexico, I am most encouraged that you have initiated these hearings regarding developments in Mexico and their economic implications for the United States. The hearings today specifically involve the impact on the border regions, and since my District is directly affected, I am most pleased that you have afforded me the opportunity of submitting a brief statement for the record. Last week, you considered some of the broad sweeping changes and developments which have recently taken place in Mexico. Very probably the single most devastating result of these changes and developments, relative to United States border areas, is the peso devaluation. Last August when Mexico first allowed its peso to float on the money market, the exchange rate jumped from 12.5 pesos to the U.S. dollar to 20 pesos to the U.S. dollar. The exchange rate went as high as 28 to one, and has been fluctuating between that high and the 20 to one figure. In effect, this means that Mexicans found that their pesos were buying only about half as much in U.S. stores as they did previous to the devaluation. The result could be easily predicted: many border area Mexican citizens stopped spending their money in U.S. stores on the other side of the international boundary. In the city of El Paso which is in my district—and which, incidentally, is the largest U.S. city on the Mexican border—the effect has been near catastrophic. Some retail stores which enjoyed a high volume of retail trade from Mexico report business declines of as much as 60 and 70 percent. The effect is not restricted to the retail community, either. One of El Paso's oldest and most venerable firms, the Mine and Smelter Company, recently closed its doors and cited the peso devaluation as one of the main contributing factors. El Paso's dubious distinction of having one of the highest unemployment rates in the country, over 12 percent, can be directly related to the instance of the peso devaluation. At a seminar on this problem held in El Paso on January 12 under the sponsorship of the El Paso Chamber of Commerce and the University of Texas at El Paso, some rather startling, and frightening, thoughts were developed. For instance, one of the Mexican participants in the seminar, a man whose expertise and knowledge are well respected, said his studies of the situation indicated that retail trade in El Paso from Mexican citizens was off about 70 percent at this time. It was his opinion that regardless of the future value of the peso, El Paso's retail trade from Mexico would suffer a permanent 30 percent loss. This quite obviously would indicate a long term deleterious effect on El Paso's overall economy. As an indication of just how severe the economic repercussions could be to El Paso, one has only to consider the present retail trade picture there. El Paso does an annual retail trade of $1.5 billion. Twenty percent, or $300 million, comes from Mexico. The 70 percent reduction in retail trade, a figure which most experts agree on, represents a loss in $210 million in sales to El Paso businessmen. Should the peso effect some kind of a recovery in the future—and it is doubtful that it will ever return to the 12.5 to one ratio of pre-August 1976 days—El Paso still stands to lose $90 million a year in retail sales to Mexico based on current retail sales volumes and taking into account the predictions of experts on both sides of the border. Again, I should like to thank the Committee for its concern and its expeditious action on this matter. I am hopeful that you will continue these hearings, and that I may bring expert witnesses from both sides of the border to Washington to spell out first-hand effects of the peso devaluation on our border communities. I understand that the present series of hearings is designed mainly to discuss and identify the problems in question. That being accomplished, I hope the Committee will then concentrate on solutions, and I should very much appreciate the opportunity to contribute to such proceedings when the time comes. Thank you very much.

Prepared Statement of Hon. Abraham Kazen, Jr., a U.S. Representative in Congress From the 23d Congressional District of the State of Texas

Mr. Chairman, I welcome the opportunity to participate in this important effort of the Inter-American Economic Relationships sub-committee as you examine the impact on our southern border from recent developments in Mexico.

When you announced these hearings, Mr. Chairman, you noted the stake of our border areas in a stable Mexican economy. Certainly, that is an accurate assessment of the situation in Laredo, my home town, and in other border cities that have long provided retail service to our neighbors across the Rio Grande. Import and export traffic through the port of Laredo, another important element of our economy, is slower to show the effects of the peso devaluation because much of this traffic involves decisions taken some months ago. The total impact, however, has been economic disaster.

As you are aware, the Mexican government took two devaluation actions, and then the government declined to stabilize its value by setting an official rate of exchange. At the first of January, banks throughout Mexico were giving 19.5 pesos for one dollar and selling a dollar for 20 pesos. For a time, it appeared the exchange price had stabilized, and businessmen were encouraged that the difference between buying and selling rates was only five Mexican centavos.

But last Thursday, I was sorry to hear, the Mexican peso took another tumble. The Banco de Londres y Mexico, in Nuevo Laredo, was selling dollars at 24.50 pesos each, and buying dollars at 22.50 pesos. The value of the peso is down, and the difference between buying and selling rates widened.

In other words, the problem has become even worse.

A study by the Institute for International Trade at Texas A & I University in Laredo demonstrates the impact of devaluation. There was a notable upward trend in retail sales during the first eight months of 1976. Merchants planned their wholesale purchases, their employment levels and even construction of new additions on the upward economic trend that seemed clear to them. Then came the first devaluation, and retail sales in reporting establishments dropped 52 to 66 percent in four weeks. The second devaluation, as could be expected, brought even more declines.

One important factor was uncertainty about what the Mexican government would do, not only about devaluation but about capital flight, rural unrest, and its own austerity program.

I believe everyone should recognize that many of the problems on this side of the border exist because of actions by the Mexican government, so that our Congress cannot solve these problems. It is also important to point out, however, that the problems of the retail merchant in Laredo or Eagle Pass or any other border city are not local in their impact. The retail stores in Laredo that sell clothing or appliances or auto supplies or almost anything else are getting their supplies from other parts of the country, and if the Laredo economy is crippled, other areas hurt.

Laredo has had a major unemployment problem for some time—the local figure of 17 per cent prior to the Mexican peso devaluation was more than twice the national level—and Eagle Pass has had similar problems. Now with retail employers facing critical drops in their trade, more people are being laid off every day. Many cannot buy food, fuel or other essentials of life, nor do they see any immediate prospect of new jobs. The situation demands attention now.

Along with a number of my colleagues, I asked that the Small Business Administration make a special effort in the border areas. A new "devaluation loan" policy has already been announced. An SBA official has held meetings with merchants, explaining the new system to them. Merchants must show ability to repay the loans, but the SBA will be looking at their books prior to the September 1 devaluation in deciding whether to guarantee 90 per cent of their borrowing from local bankers. Reyapment plans will be adjusted to meet the economic situation, the SBA has said, deferring payments for a time and, where necessary, extending the terms of loan periods where such extensions are justified. I respectfully suggest that this committee determine that direct SBA funding providing low-interest long term loans be started soon.

With my colleagues, I brought the matter to the attention of President-elect Carter, as he was in December when we wrote to him. We asked favorable consideration of new legislation which we might develop, asked that he instruct all federal agencies to see how they might help, and urged consideration of the peso problem as he prepared his new budget.

I am pleased that he responded, agreeing to our requests, and I sure that this committee can count on sympathetic co-operation from the Executive branch.

I can only add that I am prepared to do whatever I can to help provide legislative aid to the distressed citizens of the border area.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 2, 1977.

Hon. GILLIS LONG, *Chairman,*
Subcommittee on Inter-American Economic Relationships,
Joint Economic Committee,
Senate Office Building.

DEAR MR. CHAIRMAN: In view of your on-going hearings on recent developments in Mexico and affecting our border areas, I thought I should bring to your attention the situation facing a hospital in Douglas, Arizona, as outlined by my good friend Jim McNulty.

It may be that similar situations exist in other border-area hospitals. Although not directly related to recent economic developments in Mexico, it may be that the incident of emergency care provided for Mexican citizens may be on the increase, thus exacerbating the financial problems for the American institutions.

Sincerely,

MORRIS K. UDALL, M.C.

Enclosure.

GENTRY, MCNULTY, BOROWIEC, HEWLETT & DESENS,
ATTORNEYS AT LAW,
Bisbee, Ariz., January 28, 1977.

Hon. MORRIS K. UDALL,
House of Representatives,
House Office Building,
Washington, D.C.

DEAR MORRIS: There were a lot of scandals surrounding the county operation of the County Hospital ten years ago. So a group of public minded people put together a non-profit corporation which contracted with Cochise County to acquit the county's statutory responsibility to those who were medically indigent and to run the hospital. We have been doing it ever since.

On the whole, I think we have done a good job. We allow county cardholders to choose their own physician, to be hospitalized in Bisbee, Douglas, Sierra Vista, Benson or Willcox, to purchase drugs at their local pharmacy.

The doctors bill us for their services at one rate and we pay at another rate, and everyone is happy with that arrangement, strangely enough.

We have 15 directors, 3 from each of the five communities. We meet monthly for no pay and little glory. We even contracted to take over the Bisbee Hospital from the Phelps Dodge when it discontinued operations. That nearly doubled our work.

A few years ago the Bisbee Phelps Dodge Hospital refused to admit a Mexican National patient on the grounds that it was a proprietary hospital The patent was taken to the County Hospital and treated and is now well. What is important about all of this is that there was a test suit to determine the responsibility of the Copper Queen Hospital under these circumstances. It went to the Supreme Court and it was ruled that Arizona Hospitals are obliged to accept all medical emergencies even those emanating from the Republic of Mexico.

The shock waves of all of this continue to be felt. In 1974 our County Hospital Association wrote off 30 accounts from the Republic of Mexico for $2,000.00. In 1975 we wrote off 59 accounts for $12,000.00 and in 1976 we wrote off 234 accounts for $74,000.00.

The trend is worrysome and the amounts of money are beginning to be consequential. What is to be done? We could pass a law and tell these unfortunate people to go back to Mexico for medical treatment. It is available in Agua Prieta and Nogales but not in other border towns. I do not favor this proposal.

We could try and sue these folks in Mexico but I think that's a waste of time. I suppose we could try to get some negotiations going with the government of Mexico, but I don't know that these would materialize in my lifetime.

We could ask that the financial impact be raised to a point where this burden is shared by more than just the taxpayers of Cochise County in general or the many people who use the hospital in Douglas in particular. Our new County Hospital is a very beautiful and large facility of 155 beds. It is new and it is patronized very heavily by private patients, most of them from the Douglas area.

I suppose this is one of the ramifications of living on the border. But our Board is concerned by it and has asked that I make a formal approach to you for any thoughts or advice that you may have. Best wishes.

Sincerely yours.

JAMES F. MCNULTY, JR.

THE ENVIRONMENTAL FUND,
Washington, D.C., January 7, 1977.

UNITED STATES-MEXICO EMPLOYMENT PROBLEM

Mexico has a population of about 63 million. With only one acre of arable land per person, it must import food to keep these people alive. In 19 years, at present growth rates, it will have 126 million with only half an acre for each person. Its present unemployment rate is more than 20 per cent. If we include those who are seriously underemployed, the figure is close to 50 per cent.

As it cannot support its present population, its citizens are literally forced to move, and there is nowhere that they can go except to the United States. The number that have illegally moved to this country exceeds the number of Americans who are unemployed, and the number who come to this country is approximately doubling each year. Already, the United States is the fifth-largest Spanish-speaking country in the world. Within three years, we should be the third largest.

While it is doubtless true that many American businessmen and farmers are profiting by hiring illegal aliens at low wages, it is still obvious that the American workers and the American taxpayers are footing the entire bill. If the illegals are working, our own unemployed must be supported by the rest of us; if the illegals are not working, we are supporting them. It may be that we can, and even should, foot the bill for eight or ten million of these people. Should we be asked to pay for twenty million? Can we afford a hundred million?

Representative LONG. I would like to ask a question and then see if Congressman Brown has questions.

Governor Castro pointed out—and I think rightly—that the Mexican Government is going to seek, and I guess demand, Mexican solutions to the Mexican problems, and certainly we want to respect that determination.

Looking at it from the standpoint of a Member of Congress, we, of course, can't let other people spend United States tax dollars without controls to some extent or strings on them.

I agree with this. In view of that, aren't special programs of the Marshall Plan type, which is really an AID program, bound to touch on the sovereign rights of Mexico? How does this relate to the fact that to the best of my knowledge, during all of the AID programs that we have had over many years that Mexico has never applied for any of these programs?

It would appear to me that not only do we have a political problem here in the United States, but also that perhaps you have a difficult problem in Mexico.

How would either you, Governor Castro, and then Mrs. Olivarez, see this problem?

Governor CASTRO. That is absolutely correct. Mexico has been rather proud in its heritage. They have never accepted our foreign assistance, as the AID program has been known.

In those times, of course, Mexico was prosperous economically. The peso stood for 22 years at 12.50 to 1. In my days it was 2 to 1.

I discussed the matter of border economic development programs with the President of Mexico, and he was rather receptive and perhaps they themselves could likewise organize a similar project on the border for economic development.

We have our own American side. That means if we create economic development on the American side, our Americans would go to Mexico to spend their money for recreational facilities, et cetera.

If they in turn with perhaps our expertise and know-how come into the fold, then perhaps by doing so we also would be able to develop their border communities.

We did so with the twin borders concept factories. The plants were created—they were American companies, all of them.

In fact, every one was an American company employing many Mexicans, but it hasn't been as successful as was anticipated because of international border problems.

I do believe, Mr. Chairman, that Mexico would be receptive to our assistance and to our help, providing, of course, that it is handled properly. We must recognize that Mexico is a sovereign country. Through our own embassy in Mexico City we could furnish some of the people-to-people programs and some of the experts to the programs.

I think we don't have the necessity of infringing on sovereignty. I think it is a people-to-people program. We could send some of our engineers, as we do at the university level, university professors go south. Lawyers go south. They have their conventions and conferences.

Representative LONG. Mrs. Olivarez, do you have anything to add?

Mrs. OLIVAREZ. I would like to point out that for people who are not Mexican-American, who haven't had that much experience with the border and don't travel in that country it is very difficult to understand why Mexico feels the way it does toward the United States.

It is not that they are right and we are wrong, or that we are right and that they are wrong. It is just that we have got to learn to understand what makes people think the way they do and come to the realization that many of their beliefs may not be palatable to us, but if we could learn to respect them, not necessarily adopt them, we may be able to work out with Mexico, particularly with this new President who seems to be receptive. In his inaugural address, which Governor Castro and I had the privilege of listening to, he more or less opened the door and said to the Mexican people, there is a possibility that we will have to get in bed with the United States but I want you to understand that it will be done with limitation.

In other words, we will get to bed but we are not going to take our clothes off. That's what he seemed to be saying.

Representative LONG. Your point is a good one but sometimes when you get in bed it is awfully difficult not to take your clothes off. [Laughter.]

Professor Blair or Professor Hillman, do you have anything to add?

Mr. BLAIR. Well, let me only say that I think that the focus of development should probably be on this side of the border and that Mexican receptivity would certainly be great, if the formal cooperation is in the form of loans or technical assistance.

I think we tend on this side more to underrate Mexico's capacity for handling much of this, including its technical capacity.

It is no longer one of the world's least developed countries. I think that the financial incentives would be a good issue, Mr. Chairman.

If we focus on developing our side of the border, that will have some favorable repercussions on Mexico.

Representative LONG. Could a great deal be done if such a program were instituted, Mr. Hillman, in the field of agriculture?

Mr. HILLMAN. I can only speak for agriculture to a certain degree. That is the process of rural development; and agricultural development is a highly complicated factor of how you capitalize land values.

Since we do have the highly complex ejido situation in land ownership, which is highly complex in Mexico, you eventually are going to have to decide how much you can invest in self-sufficiency in Mexico.

This means, of course, in the short run you are going to have this shortfall in agricultural importation; but in the long run, marginal costs, I think, of agricultural production in Mexico can be of such a nature, that is of relatively low enough nature, to prevent them from having to import quite so much.

In the economic jargon, I think this means that Mexico can become more self-sufficient than they are likely to do in the short run.

It will be a costly thing. The thing which I intimated in my paper is that we really don't know why agricultural productivity has stagnated in Mexico.

We don't know why yields have stagnated in the United States and in India and many other parts of the world. Yields in agricultural productivity, that is per man-hour, the way we measure our productivity, through a labor index.

So, we have had to bring in more land in our recent upwelling of world prices, we have had to bring in 50 to 60 million extra acres to meet our own food needs and export possibilities.

What Mexico will do in bringing in another million, 2 million hectares to meet its own, first of all, deficit, plus exports, we don't know.

I would proffer that it would be quite costly. One of the secrets, one of the many opening up is that this is going to be a more efficient agricultural management, the management transfer which I think will take a longer time than is intimated by Dr. Wellhausen of the Rockefeller Foundation.

I think it is going to take a longer time to get into the traditional sector, transferring from the highly specialized irrigated sector of western Mexico into the traditional sector, it is going to take a longer period of time than is estimated.

I think that it can be done. The costs will be less depending upon exports, but as I said in my paper, I would not like for either of our countries to become completely independent of each other's imports and exports.

I think that we must maintain competitive international trade relationships.

Representative LONG. Congressman Brown.

Representative BROWN OF OHIO. Mr. Hillman, I would like to pick up on your point and discuss with each of you the question of priorities in our relationship.

What comes first, the chicken or the egg? I ask this question with reference to our improving not only the economic status of Mexico, but also meeting what may be some real world needs that we can't meet in this country to the benefit of both nations economically.

If I could oversimplify the problem, it seems to me that the problem right now is that there are too many Mexicans for the economic production available in Mexico, whether that is agricultural, industrial, or whatever it is. They are willing to do hand labor, stoop labor, in the United States, which Americans generally don't care to do. Traditionally when we have had broader rules on immigration into the United States, it is the immigrant or whoever it was who came into this country who did that kind of work and then progressed through American society.

I guess that would be true, in effect, whether they stayed in Mexico or whether they came to the United States. What we are talking about here is trying to assist Mexicans to improve, in whichever location they find themselves.

The question that I have asked is, what is the basic problem?

Is it the need for water, and therefore irrigation and the expansion of productive land in Mexico?

Is it the need for economic reorganization of the ownership of the Mexican land?

Is that in fact where the productivity breakdown in agriculture has come from?

Is it the need for expanded markets in the United States and the world for Mexican agricultural production?

Or is it, in fact, something entirely different or something that should go on at the same time as agricultural expansion, the need for expanded industrial development in Mexico?

Or, is it the need for—not to get into the question of whether you have your clothes on or off when you are in bed—is it the question of birth control that needs attention?

I have a lot of people in bed with their clothes on in my part of the country right now because it is cold and you don't have natural gas.

I think that's probably what they are thinking of first when they get in bed with their clothes on. That raises some questions about our ability to continue to expand our agriculture, because of weather situations and others, and perhaps a future need to depend more on the Mexican agriculture production to meet world markets.

We talk about lifting tariffs—about taking care of a shortage of American citrus products and vegetables by lifting or reducing the tariff on Mexican products for a couple of years until we get over these problems.

It seems to me that that could be devastating to the Mexican economy because you encourage them to produce more, and then all of a sudden you slap the tariff back on and they can't sell what they are producing. The economic impact of that could be very harmful to the Mexicans.

It seems to me that you have to try to rationalize this or at least equalize it.

My question is: What is the priority of the things that we ought to be doing?

What should we be doing, first with respect to trying to deal with what apparently is a long-range, fundamental problem in our relationship with Mexico?

Mr. Hillman. Well, you posed many problems, many questions.

Representative Brown of Ohio. So did the testimony.

I guess I am returning it back to you.

Mr. HILLMAN. To answer two specific points, if I might start this, the only way in the short run is, I would suppose, that a country is obligated to feed its people as cheaply as possible.

This means relatively more self-sufficiency would probably go that way in the short run. Certainly you have to keep the masses happy.

Representative BROWN OF OHIO. But that principle really applies on both sides of the border. If Mexicans can grow it cheaper in Mexico than we can in the United States, perhaps we ought not to be in some of those areas and should make our agricultural contribution to other areas.

Mr. HILLMAN. I am saying that I think it is only a recent development, at least compared to the last 30 years, that Mexico is importing 15 to 20 percent of their food supplies, particularly grain, beans, soy products, and wheat, and it looks like we have a shortfall of 500 million tons of wheat in Mexico, which means $65 million at $3.50 a bushel for an exchange.

So, in the short run I think attention must be given to that.

As to how to get productivity up in agriculture, there are two sides of that coin. One is the rather precipitous thing that you have talked about, applying more capital and land and other factors to the agricultural production process, to get labor productivity up that way.

That is rather a long haul.

Since job creation in agriculture is such an expensive proposition, I think the alternative of other than agricultural employment is clearly the answer and not to delude ourselves with respect to creation of employment in the agricultural sector.

Even the allied processing industries in agriculture are relatively low employers of labor.

Representative BROWN OF OHIO. Let me ask you: Is Mexican agriculture organized in the most efficient way in terms of world markets?

Governor Castro suggested a broader exchange with the agricultural technologists of the United States and the other parts of the world.

Are the Mexicans trying to grow corn on unproductive land when they ought to be growing grapes and be in the wine industry?

I am glad we don't have anybody here representing California when I say that.

My question also applies to citrus products or something else that would oblige the use of more labor and be more productive in the long run for Mexicans.

Mr. HILLMAN. I think that is definitely possible. They have had an export policy with respect to cotton, of course. Even as opposed to what they are trying to do in food—cotton has been bad in the last couple of years, but probably it could make a comeback because of the high price, high international price.

Getting in and out of vegetables is a much easier thing to do, for example, than coffee, or some other tree crops, citrus.

It is a long-range proposition. In any event, agriculture is a high cost for job generation possibility or the illusion of grabbing the land, particularly in export crops, is certainly a big illusion.

What land reform does is permit people who squat on the land and take it to eat in the short run, but in the long run it is a bad national policy as far as exports are concerned.

That's a well-proven fact. It is a good method of economics——

Representative LONG. Is it a very bad policy insofar as agricultural production is concerned?

Mr. HILLMAN. I think for national policy, definitely.

There is no doubt about it.

Representative BROWN OF OHIO. Collectivized agriculture hasn't been terribly successful.

Mr. HILLMAN. Income distribution is very good. For economic efficiency in a macroeconomic sense it is very bad.

Representative BROWN OF OHIO. Collectivized agriculture hasn't been very successful any place in the world. It seems to me we ought to have some kind of policy which would encourage entrepreneurship in agriculture without going to a corporate farming kind of thing, which is land control, with the peasants employed on the land without owning it. The other end of the extreme which is literally the same thing, and that is state ownership of the land with people just simply working on it.

I would think there is some middle ground where you could encourage a reduction in the number of people on the land and an increase in their ownership of the land in such a way that they would have an individual vested interest as well as a national interest.

Mr. HILLMAN. An incentive must be there. There is no doubt. I think even the U.S.S.R. has found that in their own agriculture. An incentive must be there. To try to transplant the so-called family farm of the United States into another cultural setting is downright impossible, I think.

The most you can say is that the incentive must be there and the ownership of the land must be related to the income produced from the land.

Representative BROWN OF OHIO. It would almost certainly have to be part of a domestic policy. It seems to me that ownership of the land needs to be encouraged. There could be a policy within this country to encourage a rationalization between Mexican agriculture and U.S. agriculture that would provide for our bringing technological information to the masses in Mexico so that someone who had a good idea might also figure out a way to buy the land.

Mr. HILLMAN. No doubt. We are willing to have competition in the trade and distribution of agricultural commodities.

I think it is the U.S. long-range interests to enhance productivity in agricultural sectors all over the world.

Representative BROWN OF OHIO. Not only U.S. interests, but world interests.

Mrs. OLIVAREZ. I think your question was on the issue of priorities.

Representative BROWN OF OHIO. It was indeed.

Mrs. OLIVAREZ. I think our first priority is what are we going to do to help the American businessperson who is suffering along our side of the border.

After devaluation, we were kind of appalled to find out the Government had absolutely no program, no communication. When we experienced the devaluation, the Safeway stores were telling us I normally have five checkout stores on Sunday; we now have two.

The largest department store is laying off 70 people.

Representative BROWN OF OHIO. I understand the problem.

Mrs. OLIVAREZ. My answer to your question is that that should be the number one priority, the effect of the peso devaluation on our businesses.

Representative BROWN OF OHIO. That is a priority problem. I guess what I am asking is what is the priority of reaching a temporary solution that is also a long-term solution?

What are you suggesting in the way of a temporary solution and then what should we address in the long-term solution?

Mrs. OLIVAREZ. I think we also need to renew relations with Mexico. We almost have no relations with Mexico. In the last 8 years, we have had nothing going with them. Now that we have two new Presidents, it seems we ought to start at that level.

From then on, I think very strongly it has to be a people-to-people relationship and not a government-to-government relationship.

It is not going to work.

Representative BROWN OF OHIO. I would have to respond to that by saying 5 years ago I went down for an interparliamentary discussion with the Mexicans at which time the American delegation was led by Senator Mansfield, then majority leader of the Senate.

One of the other distinguished members of that group was Congressman Jim Wright of Texas, the current majority leader of the House. Perhaps that is a beginning at least.

Senator Mansfield is gone but Congressman Wright is in a more significant position now than he enjoyed at that time. Maybe we should start there.

Of course, these discussions are helpful, too. The relationship between states probably has to originate from the heads of state. I would hope that your message gets to the new President.

Having started that discussion, then, what do we suggest is the American answer to that problem?

Governor CASTRO. Congressman Brown, perhaps another suggestion would be the matter of more American purchases in Mexico. Mexico has been dependent upon our country for many years—they are our best customer.

If we reverse that, and try to create a more fair balance of trade of Mexico with us, meaning we purchase more raw materials, clothing, equipment, merchandise produced in Mexico—this is a question of developing Mexico indirectly, getting the money to Mexico rather than vice versa.

Representative BROWN OF OHIO. Would you agree that these are going to be agricultural purchases or what would you suggest they should be?

What would our purchases do to stimulate the Mexican economy?

Governor CASTRO. We are doing well in the agricultural field. Right now the citizens in one state of Mexico export $200 million worth of fruits and vegetables. The agricultural field, I think we do fairly well in the matter of exports; mining, for instance, manufactured materials, clothing material, and leather goods.

I think some of those materials we could purchase from Mexico and assist them in the balance of trade. It doesn't cost anything.

Representative BROWN OF OHIO. So you would reduce tariffs in these areas?

Governor CASTRO. Yes.

Representative BROWN OF OHIO. What are the mining and manufactured products that you would reduce the tariffs on?

Governor CASTRO. You have bauxite, copper, and gold. I think Mexico is rather wealthy in mineral products. They do very well in some of the clothing materials and in the leather goods area, for instance.

I think on trade with Mexico, some of those products are on the sheet. They can export without paying duty. We must broaden the horizon on some of those goods coming into this country.

I think by doing that we won't have to worry about infringing on sovereignty. We won't have to worry about hurting feelings or offending them.

What we are doing is spending more dollars in Mexico on a basis of people-to-people programs rather than government-to-government.

Mr. BLAIR. Could I respond?

Representative LONG. Yes.

Mr. BLAIR. First of all, I think that one suggestion made here was that the United States increase the exemption on goods returning from Mexico, brought back by American residents.

One hundred dollars per person is very low. It is even a historical low. You can remember when it was a $500 exemption.

The second point is that when one speaks of unemployment action, an excess of people in relation to jobs, the same generalization obviously applies in varying degrees to our own economy and to those of Western Europe and even Japan.

I think that one point we should remember, Congressman Brown, is that all the Mexicans who are going to be in the labor force for the next 15 years are already here.

They are on this earth right now, for the next 50 to 80 years. We have to deal in terms of a long-time horizon. The problem is here.

If you stop Mexican births, and eliminate Mexicans——

Representative BROWN OF OHIO. Or keep your clothes on.

Mr. BLAIR. We would still have the problem for the next 50 years. That's a very important point, I think, for us to face.

On the United States side, it does hit us where problems are most acute. For example, there isn't any question at all that Mexico can respond immediately to a high level of textile imports. Try selling that to your Carolina compadres.

Representative BROWN OF OHIO. It won't bother me in my district.

Mr. BLAIR. In your district maybe not, but if you were from the Carolinas it would. You would have to deal with the reality.

Those of us who try to understand policy have a certain sympathy for politicians, even though it doesn't always sound so. In the United States we tend to blame the politicians for everything but the weather. We used to blame them for the weather, but now we blame the airlines for that.

The Mexicans do it, too. They tend to think all of their problems exist because they have bad politicians. As a matter of fact, I think both countries have a pretty good quality of politicians.

That's one area. Leather goods and ceramic materials, those are highly sensitive industries in the United States, where our own unemployment problems are high and the political situation is tough.

On the tourist trade, I think you get less. Generous tourist exemptions tend to be spread across a wide variety of goods. You don't get too many vested interests on that.

Representative BROWN OF OHIO. You are certainly right about the sensitivity of the leather and the ceramic industry. You didn't interest me too much when you were talking about the textile industry, but when you get to ceramics, you get to my area.

Being a guy who has a modest investment in a farm on which the only thing we can grow is beef, I was sitting here trying to calculate what the impact of reducing the tariff on hides would do to what is already a depressed industry.

Mrs. Olivarez comments that we start discussions aggressively, and I am sure that will lead to some areas here where we can find some positive solutions and then perhaps a long-range common solution, even approaching such things as the ceramics, beef, and textile problems.

I agree that you can't start birth control retroactively, but it seems to me that there might be a quid pro quo for some of the things that we would want to undertake in terms of trade relationships. We want to avoid the kind of situation that exists in industry where every time we send somebody over to help improve the productivity of agriculture in India, we wind up having succeded in that area without reducing the number of mouths that there are to be fed.

It seems to me that births just continue to grow and always exceed the agricultural possibilities.

Mr. BLAIR. On that score, Congressman Brown, one of the achievements of the past regime was the passage of Mexico's first population law, very much to be applauded.

It represented a very intelligent reversal of a previous position. The population commission has been created. The law itself openly welcomes family planning as part of the rights of liberated women and intelligent couples, but that will take a considerable amount of time, as it has in our own country and other places.

I think we are about to see a significant change in Mexico's increase in about a decade.

Again, I have to go back and say that we have to deal with the labor force that is already here.

Representative BROWN of Ohio. I thank you. I think the testimony has been very stimulating. I am not sure we got any answers to the question of priorities, but obviously, if we don't start addressing the questions, we won't even get to the question of priorities.

Mr. BLAIR. I do think that the point I made on priorities was that increased income and employment in the United States is the number one priority.

You can ask any Mexican. Before you try to do anything for us, if growth rate for some considerable period of time, that will help Mexico a great deal; and avoid in the meantime trying to solve those unemployment problems specifically by restricting trade.

I made a plea in the case of illegal migrants: Have mercy on those people. They transfer money back to Mexico each year. I recognize the problem they create here, but I hope we will not try to solve the problem in ways that will increase the problems in Mexico.

Representative LONG. Ithink the point you make, Mr. Blair, is a valid one. What we have to do is to be careful that what we do to stimulate our own economy and correct our own problems does not exacerbate the problems of our neighbors.

I also am inclined to agree that the best thing we can do is to stimulate the American economy and re-establish growth.

Governor, I notice that you are—rightly so—greatly concerned about the economic impact of the retail trade in our border cities. I think you certainly have every right to be. It was my understanding from your prepared statement that you felt there had been some recovery in these areas since the devaluation of the peso.

It is my further understanding that it was your feeling the devaluation over some period of time should improve economic conditions in Mexico, including their border cities and this would in turn ultimately rebound to benefit our border cities. Do you think that this recovery is going to be sufficient or are there any additional steps that should be taken at this time?

Governor CASTRO. I think, Mr. Chairman, I have, in my lifetime, gone through three devaluations. Two to 1, 8 to 1, 12.50 to 1, and now 26 for a while. It is not a novel thing. It is not new. I think within the next year, we will have stabilization and normalization again. We need it now. What can be done? There is the SBA, the Small Loan Association Committee to extend these loans at a small rate of interest.

This now would help get people back on the job. No. 2, I think is the needed formation of the Southwest Border Commission, which means Texas, New Mexico, Arizona, and California. Economic funding can be made forthwith to border areas for public purposes: Highways, parks, industrialization, and industrial parks, create employment soon—immediately.

No. 3, I belive that perhaps on the question of municipal governments and county governments, we could improve employment. If we improve employment on the American side, that will improve it in Mexico.

Representative LONG. Thank you very much.

Related to this, of course, is the whole question of the border assembly plants which we were discussing. Mrs. Olivarez, would you comment on this?

I gather the tenor of your presentation and also of Governor Castro's was if these were relocated further away from the border, that they would draw people away to some extent or at least not accentuate their coming and reduce the pressure for migration to the United States. I wonder if this is right?

As Governor Castro pointed out, prosperity, on the Mexican side, helps the prosperity on our side. If these border assembly plants were moved to the interior of Mexico, wouldn't it make more serious the economic problems along the border?

Mrs. OLIVAREZ. It depends upon what problem you are trying to solve. If you are trying to solve the problem of undocumented workers in the United States, then the solution is to move those plants further into the interior so that they don't act as magnets for people trying to find jobs.

If you want to solve the problem of economic development for the American side of the border, obviously, you would put the plants on the American side of the border. It all depends upon what you are trying to solve. Our argument has been that the twin-plant concept, when located—you know, on—one on each side of the border—as in Nogales—it grew how much?

Governor CASTRO. It is 150,000 people now on the Mexican side.

Mrs. OLIVAREZ. In other words, if you are equipped to deal with that kind of growth, then I say it is all right to locate them on the border. Economic development to us means that a community should have adequate roads, adequate water, adequate sewer, good hospitals, good schools, to accommodate that kind of growth. In many instances, we have just completely ruined a community by asking Motorola or GE to come in and locate there and not doing the infrastructure first. So, it depends upon what type of problem you want to solve.

Representative LONG. The other edge of what Mrs. Olivarez is speaking of, Governor, would have a direct effect upon American cities along the border. What is your view on this?

Governor CASTRO. The Mexican Government, recognizing there were two magnets moving people from the interior of Mexico to the border, changed its law. Now, it is permissible to have—in fact, they do have many of these complexes in the interior, instead of on the border. This law has been changed now.

Representative LONG. It is more a question of changing the policy with respect to those that are built in the future than suffering the economic impact of moving those that currently exist?

Governor CASTRO. I think that is right.

Representative BROWN of Ohio. Could I throw in a question at this point? It seems to me that the subtlety of putting an American plant in Mexico, either away from the border or at the border, is different from allowing Mexicans to come to the United States, either at the border or deep into the U.S. interior as immigrants. Their impact on the labor availability and cost of labor in our country is not just sort of an either/or. It has a lot of ramifications on both sides. I am wondering if anyone on the panel would favor a return to the 1900 or 1890's immigration policies with reference to Mexico?

Governor CASTRO. We have had a rather liberal immigration law for Mexico and Latin America. As of 2 or 3 years ago, the immigration law was changed. Now, we have a quota system. We don't call it that because that is a bad word. We have a numeral system. This has made it almost impossible for any Mexican citizen to enter the United States legally. What it has done, it has motivated what would be normally a legal Mexican alien, he is transformed into an illegal alien. Therefore, the pressure of illegal aliens coming into the country has been double because of our immigration law.

I think we must go back to more liberality in the immigration laws.

Mrs. OLIVAREZ. I think, Mr. Chairman, this new policy of a limit of 20,000 for Mexico, with the limitations as to who those 20,000 could be, is really going to exacerbate the entry of workers, because many of them who were in line for admittance are now out because of the new law that was passed, the 20,000 quota. Whereas before we were getting between 40,000 and 60,000 people legally from Mexico, the reduction to 20,000 is just going to increase the illegal entrants.

Representative LONG. It would appear also that historically there is some justification for a different immigration policy for our neighbors with whom we have land borders than it is for other foreign countries.

Mrs. Olivarez, you suggested that a trial program was worthy of serious consideration, even to the extent of perhaps a limited open-border policy.

Mrs. OLIVAREZ. Yes. You see, if you look—if you trace the history of immigration between the two countries, we kind of got Mexico used to the fact that they could send their surplus labor to this country. Whenever we needed them, we managed to find a way to get them over legally.

The minute that we had a domestic economic problem, the first people we looked at were the ones that we had recruited, and then we sent them back. This goes on year after year. There are vagaries in our policy, and a lot of the people in the rural area don't know from one year to the other if we have changed our policy or our law.

Representative LONG. I think one of the things many of us don't recognize, and that perhaps these hearings can correct, is that we in many instances had policies that led in one direction and they have tended to rely upon, and then we have arbitrarily cut off that policy and moved in a completely different direction.

Mr. Blair, I think this was in your statement. You made the point that once again these border plants are competitive. Before the devaluation they were not competitive. You think that Mexico is going to succeed in expanding this program? Looking at experience under the program, do you think it is a net drain on U.S. employment opportunities or is it not? There is some argument on this.

Mr. BLAIR. There is some question. My feeling is that quite the contrary, it will result in some net creation of U.S. jobs, both those allied specifically to the twin-plant groups and service secondary and tertiary employment.

Mr. Long, there were two significant factors in the decline of the assembly industry in Mexico. If you and your staff members are aware, there have been a number of studies that employment declined drastically in 1974 and 1975. It was cut to less than half. Two factors: Recession in the United States severely hurt demand for the kinds of goods they produced; and Mexican costs by then, because of higher rates of inflation internally, had gotten noncompetitive. On the supply side, high costs; on the demand side, a sudden recession in demand really dealt those plants a very serious blow.

The floating peso has eliminated that cost differential problem because we are, I think, experiencing some significant recovery. If it proceeds at current rates, those plants will be competitive and quickly so. That is there right now.

Some of them are being established instantly, as fast as they can go back into production.

A lot of them are also what we call footloose plants. It is easy to set it up and easy to pull it out. If prices change, you can pull it out in a week's time. The short-run prospect is for a very rapid increase in that activity. Over the long run, it is a matter of whether Mexico is successful in controlling its internal inflation rate.

It is pretty easy to show that the relatively higher rate of inflation in Mexico compared to that here was largely responsible for the peso having to be devalued. My personal opinion is that the Mexicans were wise to choose to float it so that they can avoid the trauma of official devaluations and revaluations. As you know, last week the peso floated down and then back up again. Like all other countries, it will be now considerably flexible. If Mexico has internal inflation at rates seriously higher than that of the United States, pressures will again be on it.

I think for 2- to 3-year period, it will be very prosperous. Whether President Portillo can realize his 6-year plan is a question, whether they can control that rate of inflation returning.

Representative Long. Well, I certainly—and I know I also speak for Congressman Brown—want to thank our distinguished witnesses for being with us today.

Representative Brown remarked, and I agree that we didn't believe we could arrive at any conclusions and solutions to these very complex problems. I do think the 2 days of hearings have been extremely valuable in four or five different respects. Certainly, you have added materially to our understanding of the problems.

I would also like to thank our staff people, Steve Watkins and Sarah Jackson for assembling witnesses of your caliber, as were our witnesses of last Monday. You are not only extremely competent in your fields, but you have the broad range of backgrounds and viewpoints needed to assess a complicated problem such as this one.

It would seem that not very much has been done in the last 20 years or so towards an establishing of good relationship with Mexico. We have been involved in big-government diplomacy rather than looking hard at problems that are much closer to home. The Governor made a reference to this point with respect to the institution of the Marshall Plan. It does seem to me there has been a unanimity on at least one point. That is that the problems are serious enough and in fact not only justify but perhaps call for a meeting of the heads of State. We cannot continue to work with one going in one direction and another in the other. A great deal more could be done if we would try to stimulate our economy in ways which would not hurt and perhaps even help others.

This seems to be unanimity here on the necessity of a presidential meeting at the earliest possible date. While it is not a crisis situation, it is an urgent situation. Congressman Brown and I have written a letter to the President of the United States, to President Carter, that makes precisely this point. We are going to send it over to the

White House this afternoon. I did, Governor, in the letter take note of your offer to serve as the host for such a meeting.

Representative BROWN of Ohio. I might say, Mr. Chairman, that Governor Castro's rather well-developed background presentation might be sent over also as prepared reading for such a meeting. I am very impressed with that and with the testimony we had from all of you. It has been very helpful.

Representative LONG. Let me say again, thank you.

The subcommittee stands adjourned.

[Whereupon, at 12:17 p.m., the subcommittee adjourned, subject to the call of the Chair.]

O