

Research Department
Federal Reserve
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¿Cuántos Mojados?

Economics, like nature, abhors a vacuum, and the latest evidence is the vast influx of illegal aliens—frequently called “wetbacks” (mojados)—to help meet the demand for low-wage workers in American farms and workshops. Recognizing the “push-pull” nature of this phenomenon—rural overpopulation in Mexico and economic opportunity in the United States—the Administration last month proposed new legislation for curbing the inflow, primarily by making employers pay as much as \$1,000 penalty for each “undocumented” alien they hire. Other features of the proposed legislation would include amnesty for those illegals who have become long-term residents of this country, and the assignment of 2,000 additional agents to the force now guarding the Mexican-U.S. border.

In past decades, normal immigration quotas took care of a certain portion of the inflow, and in addition, Congress in 1942 developed the “bracero” program, thereby permitting temporary immigration of farm laborers for work primarily in the fields of California and the Southwest. By the early 1960’s, about 100,000 Mexican and other foreign workers entered the country each year under this program, but Congress then closed it down in 1964 because of a belief that the program depressed farm wages. Subsequent U.S. and Mexican legislation attempted to create job op-

portunities for Mexicans through the border-industry program, under which U.S. manufacturers received tax breaks to set up assembly operations in border areas. But these and other safety valves failed to contain the growing migratory pressures. In fact, normal immigration quotas were effectively reduced by 1976 legislation, from about 62,000 to 40,000 per year, and this might lengthen even more the present 2½-year waiting period for Mexican applicants.

Most important contact

Illegal immigration thus represents perhaps the most important point of contact of the U.S. and Mexican economies, and yet few empirical studies of the subject have appeared until just the last several years. The importance of these studies lies in the fact that they sharply challenge the conventional wisdom on the subject of illegal immigration. Their authors argue, for example, that the illegals are only temporary migrants rather than permanent U.S. residents, that they don’t take jobs away from jobless Americans, and that they make a significant contribution to both the American and Mexican economies. Moreover, according to MIT Professor Wayne Cornelius, a permanent solution to the problem of illegal immigration must deal with such root causes as “the huge wage differentials between the U.S. and Mexico, rapid population growth, high unemployment and

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maldistribution of wealth within Mexico, and the perception of the United States by large sectors of the Mexican poor as a land of relatively accessible economic opportunities." The U.S. *minimum* wage is half again as large as the *average* wage in Mexican manufacturing; perhaps 40 percent of Mexico's labor force is unemployed or underemployed, and the situation could worsen because half of today's population is under 16 years of age.

For obvious reasons, no one knows the exact number of illegal entrants. The number of "undocumented" Mexican aliens apprehended by the Immigration and Naturalization Service jumped from 49,000 in 1965 to 773,000 in 1976, and most experts believe that the total number of entrants is three to four times greater than that. By these standards, the widely quoted number of 8.2 million illegals (including 5.2 million Mexicans) would be several millions too high, partly because of double-counting.

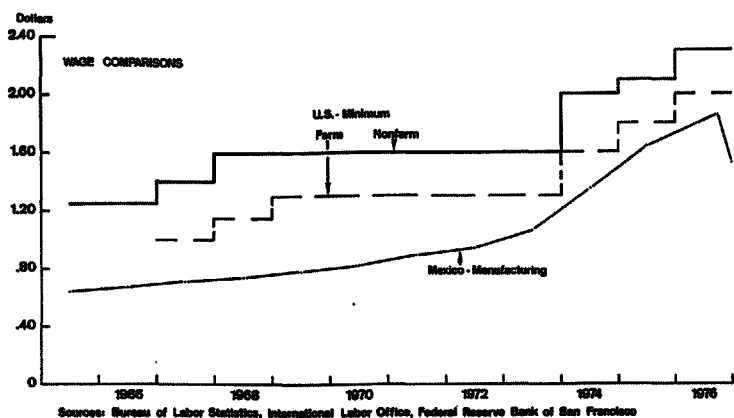
According to Cornelius' study, Mexican illegals are predominantly young, male, poorly educated, occupationally unskilled workers from impoverished rural backgrounds. Most illegals have a family tradition of migrant activity—for example, with fathers or other family workers having participated in the former bracero program. Landless agricultural workers and sharecroppers are by far the most migration-prone groups. Psychologically, most seem to fit the traditional pattern of immigrants—risk-taking individuals dissatisfied with

social and economic conditions in their home communities.

Economic motivation

All studies of the problem stress the strongly economic motivation of Mexican illegals. Heavy unemployment and underemployment in Mexico is one motivating factor; 58 percent of the illegals surveyed in Cornelius' study said that jobs were easier to find north of the border than in the major Mexican cities. Moreover, 63 percent of the illegals found work in the U.S. within ten days of crossing the border, and another 9 percent had jobs assured (generally from earlier employers) even before they left Mexico.

Cornelius emphasized, however, that migration is fueled not just by lack of jobs, but also by lack of reasonably well-paid jobs in Mexico. Enforcement of the official minimum wage is lax, and since 1971 the real incomes of poor Mexican families have been seriously eroded by inflation. Another study of J.C. Jenkins indicated that the size of the gap between Mexican and U.S. wages represents the best single predictor of the volume of illegal Mexican migration. Consequently, a sharp increase in migration should have been expected after the gap widened on the heels of last September's devaluation, when the value of the peso dropped from 12½ cents to less than 5 cents. In January-August 1976, Mexican manufacturing wages (including wages paid to skilled and semi-skilled workers) averaged about \$1.86 an hour, compared to the U.S. minimum wage (paid to unskilled workers) of \$2.30 an hour. In



Sources: Bureau of Labor Statistics, International Labor Office, Federal Reserve Bank of San Francisco

September-December 1976, following devaluation, Mexican manufacturing wages averaged only \$1.53 in dollar terms, despite a 32-percent increase in peso terms. Further increases in migration can be predicted on the basis of the forthcoming (January) rise in the U.S. minimum wage to \$2.65 an hour, especially in view of the continued (10-percent) decline in the value of the peso over the past year.

Job displacement?

Once over the border, most illegal migrants find work in Southern California, the Chicago area, or various Texas localities. The vast majority spend only several months in the U.S. before returning to Mexico; Cornelius found in his survey that only 11 percent remained more than a year in the U.S. Despite the common belief to the contrary, few native Americans appear to be displaced in the job market by illegal Mexican workers. In Cornelius' words, "Workers cannot be displaced if they are not there, and there is no evidence that disadvantaged native Americans have ever held, at least in recent decades, a significant proportion of the kinds of jobs for which illegals are usually hired." Migrants typically become agricultural field laborers, dishwashers and waiters in restaurants, and unskilled construction workers—jobs involving dirty and difficult tasks, low wages, long hours, and low job security.

The "job displacement" theory seems doubtful in the light of several unsuccessful attempts made by government agencies last year, in Los Angeles and San Diego, to find

U.S. citizens to fill vacancies created by the apprehension of illegals. In the San Diego case, 90 percent of the positions were left unfilled until (legal) commuter workers were imported from Mexico. Again, the explanation is economic; an American family of five could receive (untaxed) welfare payments of \$4,800 a year, compared with average earnings of \$4,368 a year for the types of jobs held by illegals.

Despite their concentration in low-paying jobs, Mexican illegals typically remit one-third or more of their U.S. earnings to relatives in Mexico. Thus, they provide a major support to the Mexican economy, with remittances amounting to \$3 billion or more a year—far exceeding the contribution of tourism to the nation's balance of payments. By the same token, about two-thirds of the illegals' earnings remain in this country, contributing both to U.S. tax revenues and retail sales. A study made by M. Vic Villalpando in San Diego County—probably the greatest geographic concentration of undocumented aliens—showed that illegals pay about \$49 million in taxes on locally-earned wages but consume only about \$2 million in government services each year. Emphasizing this point, several general studies indicated that only 3 to 4 percent of the illegals ever collect unemployment or welfare benefits or enter their children in U.S. public schools, and only 8 to 10 percent receive free medical assistance in U.S. communities. By these analysts' yardsticks, then, the illegals provide a net gain to both the American and Mexican economies.

William Burke

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
 (Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 8/17/77	Change from 8/10/77	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	100,353	- 787	+ 11,014	+ 12.33
Loans (gross, adjusted)—total	77,383	- 685	+ 10,176	+ 15.14
Security loans	2,135	- 784	+ 515	+ 31.79
Commercial and industrial	23,582	+ 59	+ 2,082	+ 9.68
Real estate	25,030	+ 144	+ 4,490	+ 21.86
Consumer instalment	13,435	+ 80	+ 1,997	+ 17.46
U.S. Treasury securities	8,815	- 24	- 856	- 8.85
Other securities	14,155	- 78	+ 1,694	+ 13.59
Deposits (less cash items)—total*	97,058	- 647	+ 8,663	+ 9.80
Demand deposits (adjusted)	27,357	- 799	+ 2,342	+ 9.36
U.S. Government deposits	291	- 47	- 172	- 37.15
Time deposits—total*	67,589	+ 134	+ 6,161	+ 10.03
States and political subdivisions	5,259	- 17	- 426	- 7.49
Savings deposits	31,848	- 10	+ 5,072	+ 18.94
Other time deposits‡	28,465	+ 106	+ 1,843	+ 6.92
Large negotiable CD's	10,890	+ 90	- 46	- 0.42
Weekly Averages of Daily Figures	Week ended 8/17/77	Week ended 8/10/77	•Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves (+)/Deficiency (-)	+ 80	+ 30	-	4
Borrowings	46	172		18
Net free(+)/Net borrowed (-)	+ 34	- 142	-	22
Federal Funds—Seven Large Banks				
Interbank Federal fund transactions				
Net purchases (+)/Net sales (-)	+ 798	+ 526	+ 156	
Transactions with U.S. security dealers				
Net loans (+)/Net borrowings (-)	+ 563	+ 400	+ 91	

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

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