Research Department
Federal Reserve
Bank of
San Francisco

February 16, 1979

FRBSF Weekly Letter

Pobre Méjico

In rapid-fire order, Mexico has played host to both Pope and President, ironically underlining the old saying, *Pobre Méjico* — "Poor Mexico; so far from God, and so close to the United States." (Incidentally, President Carter used those same words in welcoming President López Portillo to Washington two years ago.) The meeting of the two presidents also underlines the need to develop common solutions for the diverse problems generated on the two sides of a 2,200-mile frontier, which both ties together and sets apart a major developing country and the world's most advanced industrial power. The major actors in this drama include the millions of Mexican men who cross the border to work in the American Southwest, and in addition, the almost 100,000 women workers producing American products in the Northern Mexico factory belt and the relative handful of Gulf Coast oil workers who may hold Mexico's salvation (and our own) in their hands.

In some respects, Mexico's future looks much stronger than it did several years ago — and not simply because of its new oil bonanza. Many of the problems associated with the 38-percent currency devaluation of September 1976 have now worked their way through the economy. Although consumer prices have roughly tripled over the past six years, price increases have become smaller recently in the wake of the austerity program developed in collaboration with the International Monetary Fund. Again, the economic-growth pace has accelerated, following the near-stagnation of the mid-decade.

Malthusian specter

Over everything, however, hovers the Malthusian specter of over-population, affecting political and economic relationships on both sides of the border. Mexico's population has tripled since 1940 to about 66 million today, and its present population could double by the turn of the century with its 3.5-percent annual growth rate, one of the world's highest. (However, the pace may now be decelerating.) Mexico's natural population increase amounts to 2.3 million annually, whereas the U.S. natural increase amounts to only 1.1 million annually; in other words, a country less than one third our size produces more than twice as many new inhabitants each year.

Mexico, however, has found it impossible to generate new job opportunities at the same pace. Forty percent or more of the labor force are unemployed or underemployed, and the problem could intensify because roughly half of all Mexicans are under 16 years of age. President López Portillo, in his 1978 address to the nation, proposed legislation which would guarantee employment to everyone who wants to work, but fulfilling that pledge seems almost insuperable in view of the labor-market pressures created by past and present population growth.

Human tide at the border

The "push" of Mexican overpopulation and the "pull" of American economic opportunity have strongly influenced U.S. labor markets in recent decades, especially in the Southwestern states. Mexican-Americans now account for 3 percent of the total U.S. labor force,

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following annual-average increases in (legal) immigration of 30,000 in the 1950's, 45,000 in the 1960's, and 65,000 in the first half of the 1970's. But these numbers represent only the tip of the iceberg, because several million illegal ("undocumented") Mexicans cross and recross the border every year in search of work. According to official U.S. estimates, more than 5 million Mexicans may be involved, but those estimates are probably overstated because of double counting.

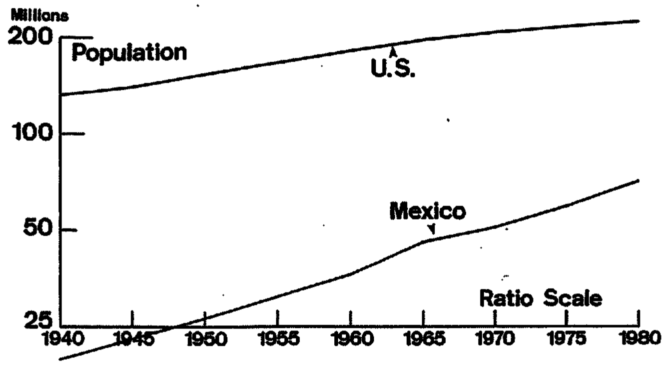
Many Americans, apparently including most labor leaders and most environmentalists, have become sharply critical of the continued inflow of illegal immigrants. As befits an Anglo resident of the old California-Mexican town of Santa Barbara, environmentalist Garrett Hardin says, "Ultimately there comes the time when further heavy immigration is destructive of national goals; at this point, the descendants of the earlier immigrants had better muster the moral courage to shut the great barn door." But several recent research studies sharply challenge the conventional wisdom on this subject. According to these studies, the illegals are only temporary migrants rather than permanent U.S. residents and, moreover, they don't take jobs away from jobless Americans — indeed, they make a significant contribution to both the American and Mexican economies.

The volume of illegal Mexican immigration largely reflects the size of the gap between U.S. and Mexican wages. Consequently, a sharp increase in migration could have been expected in the wake of Mexico's 1976 devaluation and the recent series of increases in the U.S. minimum wage. Mexican manufacturing wages (including wages paid to skilled and semi-skilled workers) range around $2.00 an hour — roughly one-third below the minimum U.S. wage (paid to unskilled workers) of $2.90 an hour. Moreover, jobs generally are more plentiful as well as better-paying north of the border. According to a study by M.I.T. professor Wayne Cornelius, 63 percent of illegal workers found work in the U.S. within ten days of crossing the border, and another 9 percent had jobs assured (usually from earlier employers) even before they left Mexico. But the vast majority work only several months here before returning home. And while working here, most remain concentrated in jobs that Americans shun — jobs involving dirty and difficult tasks, low wages, long hours, and low job security.

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 — several times the contribution of tourism to the nation's balance of payments. Moreover, according to several Southern California surveys, they do not represent a major burden on the U.S. economy; only 3 to 4 percent of the illegals ever collect unemployment or welfare benefits or enter their children in U.S. public schools.

Factories at the border

A second point of major Mexican-U.S. contact is the border-industry program. The Mexican government instituted this program a decade ago as a solution to the problem of severe unemployment



in the border area, created not only by rapid population growth but also by the termination of the bracero program, which permitted temporary immigration of farm laborers for work primarily in the fields of California and the Southwest. It failed to meet the bracero problem — the farm workers were mostly male, while young women accounted for roughly 90 percent of the factory work force — but it turned out to be a substantial success on its own terms. The program in recent years has employed about 80,000 people in some 550 plants strung out from Tijuana on the Pacific to Matamoros on the Gulf of Mexico. In both 1976 and 1977, these plants exported more than $500 million of various products, primarily electronic products and clothing, and accounted for a significant share of Mexico's total exports. The program's success has been due not only to Mexican industrial-development legislation but also to U.S. tariff legislation, primarily Section 807 of the U.S. tariff schedule, which partially exempts foreign-assembled U.S. products from import duties.

Under the border-industry program, Mexico takes advantage of its surplus of low-wage workers and concentrates on labor-intensive assembly operations, while the U.S. takes advantage of its highly capitalized manufacturing facilities and concentrates on the production of basic components. In some cases, this collaboration takes place through the pairing of plants in twin-city locations, with U.S. firms establishing counterpart operations on both sides of the border. For example, many Tijuana firms are tied in with Los Angeles electronics, clothing and furniture firms, with the Tijuana plants doing the assembly work and the L.A. plants handling such functions as initial processing, finishing, packaging and distribution.

Arabia at the border

The border-industry program in effect places a Hong Kong or Taiwan on the U.S. border, although one with a greater locational advantage for assembly-type operations. But now, luckily, the U.S.also finds a Saudi Arabia on its border, with oil resources beyond Mexico's (and our own) wildest dreams. Pemex, the government oil monopoly, has sharply raised its earlier estimate of proven oil reserves in several stages to a present figure of 40 billion barrels. This nearby source of oil, free from possible entanglements in Middle Eastern conflicts, could solve many problems for the U.S. and the rest of the industrialized world.

But Mexico in turn needs help with its own massive growing pains. It counts on continued U.S. support for the border-industry program; moreover, it hopes to reduce U.S. tariffs and quotas which impede its exports of farm products and non-oil manufactured goods, while maintaining widespread restrictions on its own imports. Mexico also looks upon the movement of illegal migrants as a safety valve for its population pressures, and it worries about the possibility of more stringent controls being imposed to stem the tide. The formulation of mutually acceptable solutions to these and other problems may go a long way toward shaping Mexico's strategy for developing its oil resources. The alternative would be an intensification of all those ominous symptoms which President López Portillo has characterized as the "South Americanization" of Mexico.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 1/31/79	Change from 1/24/79	Change from year ago @ Dollar	Percent
Loans (gross, adjusted) and investments*	120,371	+ 350	NA	NA
Loans (gross, adjusted) — total#	98,315	+ 389		
Commercial and industrial	28,720	+ 73		
Real estate	34,984	+ 103		
Loans to individuals	20,204	+ 89		
Securities loans	1,635	+ 72		
U.S. Treasury securities*	7,558	− 58		
Other securities*	14,498	+ 19		
Demand deposits — total#	40,382	+ 864		
Demand deposits — adjusted	29,392	− 352		
Savings deposits — total	29,673	− 239		
Time deposits — total#	51,006	+ 34		
Individuals, part. & corp.	41,370	+ 50		
(Large negotiable CD's)	18,974	− 130		

Weekly Averages of Daily Figures	Week ended 1/31/79	Week ended 1/24/79	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves (+)/Deficiency (−)	+ 77	− 27	− 42
Borrowings	− 56	− 68	− 26
Net free reserves (+)/Net borrowed(−)	+ 21	− 95	− 68
Federal Funds — Seven Large Banks			
Net interbank transactions [Purchases (+)/Sales (−)]	+ 1,363	+ 1,243	+ 1,536
Net, U.S. Securities dealer transactions [Loans (+)/Borrowings (−)]	+ 616	+ 583	+ 374

*** Excludes trading account securities.**
 # Includes items not shown separately.
@ Historical data are not strictly comparable due to changes in the reporting panel; however, adjustments have been applied to 1978 data to remove as much as possible the effects of the changes in coverage. In addition, for some items, historical data are not available due to definitional changes.

Editorial comments may be addressed to the editor (William Burke) or to the author ....
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