

THE MEXICAN CURRENCY DEVALUATION:
ITS IMPACT ON SOUTH TEXAS AND THE ISSUES IT RAISES

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ABSTRACT

An area closely tied to Mexico by geography, commerce, and culture, South Texas has been strongly affected by the recent Mexican currency devaluation. Although the area had experienced a rapid growth in recent years, its unbalanced economy will be strained by the devaluation's effects.

The analysis in this thesis is divided into two parts. Part One examines the effects of the devaluation on specific sectors of the region's economy: retail industry, financial institutions, and government income-maintenance programs. The study shows the reaction of the parties most affected and reviews business policy changes that subsequently took place. A basic premise that underlies this part of the analysis is that by examining the economy before and after such a severe economic impact, those sectors of the economy sensitive to changes can be observed more readily. More important, their roles in the economy can be studied and policy suggestions to improve the area's economy determined.

Part Two of the thesis examines the policy issues raised by the devaluation's impact, and attempts to understand the implications of that impact on the development of the region. Three specific issues examined are: economic development strategies, U.S. immigration policy with respect to the commuter, and illegal immigration from Mexico. The applicability of the assumptions of the Economic Development Administration's development strategy to the area is examined and criticized in light of the devaluation's effects on the three issues above. The final chapter proposes alternative strategies that deal with the limitations of development policies currently implemented by the Economic Development Administration. Emphasis is placed on utilizing the area's own resources. Thus, major consideration is given to the role the agriculture industry, local governments, and rural organizations might play in the area's development.

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INTRODUCTION

On August 31, 1976, the government of Mexico announced its decision to float the peso. By choosing such a course, the government ended both its currency's association with the U.S. dollar and a 22-year-old exchange rate of 12.5 pesos to the U.S. dollar. To prevent currency speculation, the Mexican government announced that the Bank of Mexico would intervene in the exchange market to keep the peso's value within some reasonable limits. The following day, in his last State of the Union address, President Luis Echeverria explained his government's policy decision by discussing the need for parity with the U.S. dollar and the need and objectives of the devaluation. [See Appendix I for excerpts from his State of the Union address] Echeverria maintained that the peso's association with the U.S. dollar was required so that foreign credit and financing could be obtained for Mexico's public investment program. He noted that during his administration, public investment had surpassed private investment for the first time.¹ Yet, it was this public investment pattern that later led to a deficit in Mexico's balance of payments and thus precipitated the peso's devaluation.

Before the devaluation, efforts were made to enlarge the payment capacity of foreign borrowings by increasing domestic production of Mexican exports. However, at the same time, world economic conditions were reducing demand for Mexican goods. As a result of this decreased demand and Mexico's increasing

propensity to import foreign goods, a trade deficit began to mount. Mexico responded to this trade deficit with several measures. Exports were bolstered through a duty-rebate mechanism, special financing and guarantees. While institutional sales promotion efforts were made in many countries, strict import controls were applied. However, Mexico's "export dynamism" did not sufficiently respond to these measures. Not until negative trade flows became apparent, domestic price levels increased relative to those abroad, an unused production capacity was verified, did Mexican policymakers conclude that the country's rate of currency exchange needed to be altered.²

With this, Mexico devalued its currency. The objectives of the devaluation were announced: promote export growth, curtail the importation of foreign goods, and reduce Mexico's need to borrow abroad. The Administration also announced several restrictions of import-export companies and retail merchants. Concern over whether domestic prices would rise and affect the purchasing power of low-income groups led to precautions in this regard. Despite the economic and financial strategies devised by the Echeverria administration to minimize the unfavorable consequences, not all policy actions have met with success. Since the devaluation, news accounts have reported union pressure for wage hikes,³ poorly regulated price control measures, a period of capital flight and subsequently, a second currency devaluation on October 27, 1976.

PURPOSE OF THESIS

Although the post-devaluation experience in Mexico raises issues of importance and concern as to the directions of Mexico's future economic policy, this study will not undertake such a comprehensive investigation. Rather, this study's objective is to provide a general framework for understanding the direct and indirect effects of the Mexican currency devaluation along the U.S. side of the U.S.-Mexico border.

The thesis is divided into two parts. First, we examine the effects of the devaluation on specific sectors of the region's economy. Second, in an attempt to understand the implications of the devaluation's impact on the development of the region, we briefly examine the specific policy issues the impact raises and the conflicts in the present development strategies. This questioning leads to an initial examination of some alternative strategies for the area. There is a basic premise that underlies the analysis of the devaluation; that is, that by examining the economy before and after such a severe impact occurred, those sectors of the economy sensitive to changes can be observed more readily. More importantly, their roles in the economy can be studied and policy suggestions to improve the area's economy determined. In addition, Part 2 provides a beginning for future work in the region by the author.

Part One- Impact Analysis of Two Border Communities

Part One of the thesis (Chapters 1 to 4), provides an over-

view of the Lower Rio Grande Valley region and then a specific analysis of the effects of the August 31, 1976 Mexican currency devaluation on two U.S. towns situated along the Mexican border. Using employment and sales data from the wholesale-retail sectors, data on deposits from commercial banks and savings and loans, information from two state-operated income maintenance programs, and interviews with representatives from the above sectors, the study shows the reaction of the parties most affected and reviews the policy changes that subsequently took place. The analysis examines questions such as: the short-term strategies of business firms, the type of workers affected by the devaluation's impact, and the reasons why the devaluation affected the area so severely, i.e., what policies caused the area to grow the way it did.

Although there are many communities along the 1800 mile U.S.-Mexico border, not all the communities could be examined in this study. Therefore, it must be noted that the analysis of South Texas is actually derived from data on only two of the many communities located there, McAllen and Brownsville. These two cities were selected for several reasons. First, both cities are situated in the South Texas region. Secondly, the author was familiar with officials and interviews were easy to obtain. In addition, the two cities are within commuting distance of each other, allowing time and funding constraints to be fulfilled. Almost all of the information in the first part of the thesis will therefore relate to those two cities.

A major concern is that the reader recognize the differences existing among the economies of the various border cities. For example, this study focuses on the Lower Rio Grande Valley, an area with a large agricultural employment base, (13% in 1974). In contrast, El Paso and Laredo, also Texas border cities, have large manufacturing (20%) and retail (36%) employment bases, respectively.⁶ These differences should have some influence on the devaluation's impact on each city's economy. Still, there are many similarities among the border region's communities, and therefore many of the general findings of this paper are relevant to all the communities.

Part Two- Overall Regional Development Issues for the Lower Rio Grande Valley

In an attempt to understand the implications of the devaluation's impact on the development of the region, part 2 (chapters 5 to 7) of the thesis examines the specific policy issues raised by the devaluation and the conflicts in present development strategies.

In Chapter 5, the three specific policy issues raised by the devaluation are discussed: post-devaluation development strategies, U.S. immigration policy with respect to the commuter, and illegal immigration from Mexico. These issues become important because the devaluation has, in effect, depressed the economy of the South Texas border region and created pressures on Mexican laborers to migrate into the United States. Specifically, the major policy questions raised by the Mexican

currency devaluation for American border cities are:

A. What direction should post-devaluation economic development strategies take?

1. Since retail businesses have generated the largest employment gains in the area and are the hardest hit by the devaluation should they qualify for low-interest loans from the Small Business Administration? Will subsidizing these businesses minimize employment losses? Will employment losses increase pressures for outward migration by border residents?
2. What is the possible role of city and county governments and financial institutions in development matters? How have they been affected by the devaluation?
3. What are the present strategies of the Economic Development Administration, the Department of Agriculture, and the Department of Labor in the area?

B. U.S. Immigration Policy along the border

1. What will federal policy dictate in regard to the Mexican commuter?
2. What recent proposals have been offered to change this situation?
3. How will development affect these proposals?

C. Illegal Immigration from Mexico

1. Will the economic consequences of the devaluation increase the flow of Mexican alien labor into the U.S., specifically along the border?
2. Are illegal aliens a problem along the border?
3. How do illegal aliens affect development along the border?
4. What immigration policies have been proposed and what should be?

These issues are examined in Chapter 5 within the context of the general economic development of the area. In this setting different policy strategies are discussed in order to examine their adaptability and usefulness to the area. Present

development strategies implemented in the area before the devaluation are challenged, using the ideas and research of Marshall, Briggs, and Hansen. The author also utilizes the writings of such regional development theorists as Cameron, and Hirschman, and knowledgeable sources on Mexican migration into the United States as Cornelius and North.

In Chapter 6, the limitations of present development strategies, as highlighted by the devaluation, are pointed out, and alternative strategies that make use of local resources are proposed in Chapter 7. These alternative strategies consider the roles that the agriculture industry, local government, and rural organizations might play in the area. Thus, the devaluation's effect illustrates the need for new development strategies suited to the area's social and economic resources. A discussion of these alternatives will conclude Part 2.

FORMAT OF THESIS

Chapter One provides an introduction to the Lower Rio Grande Valley region. A geographic description of the area is given, as well as the general socio-economic characteristics of the population. Although the description focuses on the McAllen-Pharr-Edinburg SMSA, most of the discussion can also be extended to the Brownsville SMSA. The chapter concludes with a brief historical account of U.S.-Mexico border development; focusing on the close association between border communities

and why the currency devaluation will affect both sides of the border.

Chapter Two examines employment gains in the area's retail sector from 1971-1975. It also examines the business reaction of retailers to the devaluation, including employment cutbacks and other changes in business operation following the devaluation. In addition, several factors that affected the adjustment of business operations are discussed.

Chapter Three discusses the policy changes made by financial institutions (i.e., commercial banks and savings and loans) during the adjustment period. Because early news accounts after the devaluation reported a large capital outflow from Mexico, this chapter examines the amount and investment of that money in the region. The discussion closes by examining the role of these institutions in economic development efforts.

Chapter Four discusses the impact of devaluation on state programs such as the Unemployment Insurance Program, and the Texas Department of Welfare's Food Stamp Program. These programs are examined in order to estimate employment losses and illustrate the magnitude of participation in these income maintenance programs.

Chapter Five examines the major issues raised by the devaluation and why concern over these issues is justified. Also reviewed are past policy responses and present policy proposals as they concern the issues of illegal migration from

Mexico, the Mexican commuter, and economic development along the border.

Chapter Six reviews the general assumptions underlying the theory of planned adjustment and the theory of national demand. The former theory is the rationale for present federal investment in depressed regions of the country. The theory's approach to the region's problems is examined from the points of view of alternative policy strategies such as investment in human resources and investment in fast-growing regions; while the theory of national demand is further explained by reviewing the theory of comparative cost. Finally the limitations of these strategies in the region are pointed out.

Chapter Seven concludes the analysis by suggesting alternative development strategies that involve the agriculture industry, local governments, and rural organizations. The suitability and benefits of these approaches are discussed.

PART ONE

IMPACT ANALYSIS OF TWO BORDER COMMUNITIES

Part One of the thesis (chapters 1 to 4) provides an overview of the Lower Rio Grande Valley and then a specific analysis of the effects of the August 31, 1976 Mexican currency devaluation on two U.S. towns situated on the Mexican border. It must be pointed out that there is a definition problem between the term rural area and the term Standard Metropolitan Statistical Area (SMSA) within this analysis. Although the analysis focuses on the Brownsville and McAllen SMSAs, the area is predominantly rural, if a rural area can be defined as having a farm population and work force that comprises a significant proportion of the total labor force. This urban-rural dichotomy should be kept in mind by the reader, especially since the analysis focuses on the urban aspects of the metropolitan area.

CHAPTER ONE
THE LOWER RIO GRANDE VALLEY

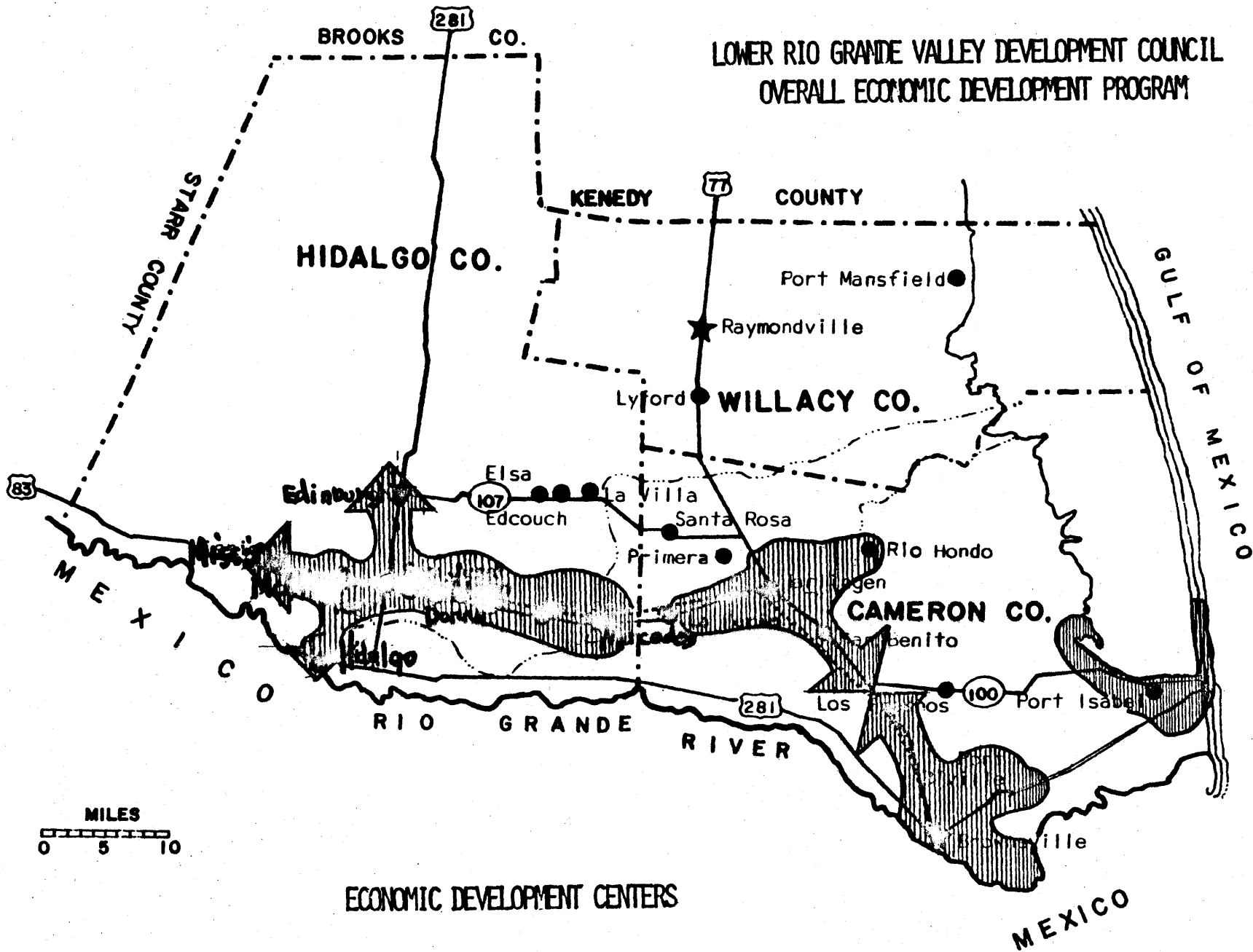
This case study examines the effects of the Mexican currency devaluation on two communities located in the Lower Rio Grande Valley; McAllen and Brownsville, Texas. The Lower Rio Grande Valley is generally considered to include the three southernmost counties of Texas: Hidalgo, Cameron, and Willacy counties. The total estimated 1973 population of these three counties is 381,000. Two cities, Brownsville and McAllen, lead the region in population, [To avoid confusion, Hidalgo county is designated as the McAllen-Pharr-Edinburg SMSA and Cameron county is designated as the Brownsville-Harlingen-San Benito SMSA], but the majority of the region's population is found in smaller cities, most of which are located along U.S. Highway 83. (See Map)

Located on an old river basin, the Valley contains 3,452 square miles, much of it very good farm land. Irrigation is provided by the Rio Grande River. The region is bordered to the east by the Gulf of Mexico and to the south by the Rio Grande River.

Ports, air terminals, rail and two major highways service the area. According to the Lower Rio Grande Development Council⁷, the region has the land, manpower, and energy to accommodate new industries if the problem of ready accessibility to markets can be overcome.⁸ The closest city of substantial size is Corpus Christi, 130 miles away. Two other major markets are San Antonio and Houston, the nearest being over 200 miles away.

The Valley is dominated by agriculture. Table 1 presents data on total agricultural employment in the area, both permanent and seasonal. As

LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL
OVERALL ECONOMIC DEVELOPMENT PROGRAM



ECONOMIC DEVELOPMENT CENTERS

LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL, McALLEN TEXAS

seen from column 5, the area does have a large seasonal work force consisting largely of illegal aliens ⁹, and migrant farmworkers.

TABLE 1

Counties	Operators	Regular	Seasonal	Total	Seasonal as % of Total
Cameron	965	1080	2600	4645	56%
Hidalgo	2900	2000	5155	10055	51%
Willacy	220	390	620	1230	50%
Total	4085	3470	8375	15930	

Source::Texas Employment Commission, "Total Agricultural Employment, October 15, 1974." Austin, Texas.

Second most important to the Valley's economy is the tourist industry. Many tourists, attracted by the Valley's proximity to Mexico and its mild winters, have become winter residents in the area, and this number continues to grow yearly.¹⁰

The Valley contains small, light industries but few heavy industrial manufacturing plants. Most of the industries are located in the three largest cities, Brownsville, McAllen, and Harlingen. These industries generally are agricultural-related, but garment manufacturing and shrimping also are situated in the area.¹¹

McAllen, Texas (Hidalgo County)

Within Hidalgo County, McAllen (population of 44,343) is centrally located and because of its location, plays an important role in the county economy. Its Mexican counterpart is Reynosa, Tamaulipas, a Mexican border industrial town five miles away, with a population estimated at over 150,000 (1970). McAllen is surrounded by a number of smaller cities such as Hidalgo (1435), Mission (14781), Pharr (17343), Edinburg (19,426),

San Juan (6535), Alamo (4736), Donna (8445), Weslaco (18447), and Mercedes (9815). The most distant of these mentioned cities is Mercedes, approximately 25 miles away. Other cities, such as Pharr and San Juan, have adjoining city limits to McAllen.

The 1970 Census of Population reported 181,534 persons and 38,122 families residing in the McAllen-Pharr-Edinburg SMSA. Of this number, 79.1 percent were Spanish surnamed individuals. In 1960, the Census reported a population of 180,900. Although the population grew little during this 10-year period, its population characteristics changed greatly, as the area experienced an out-migration of Anglo-Americans and a continued increase in the number of Spanish-surnamed Americans.

A study sponsored by the Council for South Texas Economic Progress showed that in 21 border counties of South Texas, (including Hidalgo and Cameron counties), 40-45 percent of Anglo residents between the ages of 20-49 left the region during the 1960-1970 period. Among Spanish-surnamed Americans of comparable ages, approximately 35 percent left the region without replacement. Older age groups experienced no substantial changes during this period.¹²

Most recent population estimates show a sharp increase over the 1970 figure for Hidalgo county. The increase in population is estimated at 25,000 for the county and 6,700 for McAllen (44,343).¹³

Personal income is very low in Hidalgo county. In 1970, out of 233 SMSAs in the United States, the McAllen -Pharr-Edinburg Smsa held the distinction of ranking last. The Brownsville-Harlingen-San Benito SMSA ranked above the McAllen SMSA with its per capita income of \$2,126. And the third lowest ranking belonged to another border SMSA, Laredo (Webb County).¹⁴ Per capita income averaged \$2,214 in that county. As of 1973,

per capita income had increased somewhat in all three SMSAs but had not reached \$3000.¹⁵

A comparative study of Spanish-surnamed and Anglo family incomes reveals a large discrepancy by group, as presented in Table 2. Median family incomes for Spanish-surnamed families amounted to \$3,958, while Anglo median family incomes reached \$8,851; a difference of over 100 percent.

TABLE 2

GROUP DIFFERENCES IN FAMILY INCOME (1969)
McAllen-Pharr-Edinburg SMSA (Hidalgo County)

Family Income	Spanish-surnamed	Anglos	Total	Texas
Under \$5,000	62.3%	26.1%	52.3%	25.6%
Under \$10,000	89.5%	56.4%	80.3%	60.0%
Median	\$3,958	\$8,851	\$5,276	\$8,490

Source: U.S. Bureau of the Census, Census of Population, 1970: General Social and Economic Characteristics. Table 89, p.45-590 and Table 100, p.45-728

Such family income data underscores another problem in Hidalgo county; the county derives income from farm activities at three times the state average, while manufacturing plays only a small part in the county economy. Government continues to be a dominant source of income in wage and salary payments and in "transfer payments" in the form of welfare, Social security, unemployment compensation, and farm subsidies.¹⁶

Educational attainment of the county population is low in comparison to state and national averages. Table 3 presents data on the number of school years completed by persons 25 years and older in Hidalgo county. In all cases, the data report Spanish-surnamed individuals as lagging behind

TABLE 3

YEARS OF SCHOOL COMPLETED AMONG PERSONS 25 YEARS AND OLDER

MCALLEN-PHARR-EDINBURG SMSA (HIDALGO COUNTY)

YEARS	ANGLOS	SSAs	TOTAL	TEXAS
	%	%	%	%
NONE	1.6	20.7	16.5	3.00
1-7	11.4	49.7	36.6	19.0
8-11	24.6	13.2	16.6	30.6
12	28.9	9.8	15.6	25.1
13 Or More	33.5	6.6	14.7	22.3
Median Years	12.0	5.0	7.3	11.6

Source: U.S. Bureau of the Census, Census of Population, 1970: General and Social Characteristics, p. 45-507, p.45-68.

Anglos in the number of school years completed. Median school years completed by Spanish-surnamed Americans in the county measured 5.0 years compared with 12.0 years for Anglos.¹⁷

Employment in Hidalgo county is heavily based on the agricultural, trade, and service industries. Labor force estimates place the county's labor force at 79,360 for December, 1976.¹⁸

Occupational percentage breakdowns for Hidalgo county listed in 1970 U.S. Census of Population show the clerical fields claim the highest percentage of workers (17), followed closely by service workers, excluding private household, (12), and machine operators (11). Table 4 presents this information for Hidalgo county.¹⁹

TABLE 4

OCCUPATIONS OF EMPLOYED PERSONS OVER THE AGE OF 16
FOR THE McALLEN-PHARR-EDINBURG SMSA

OCCUPATION	NUMBER OF WORKERS	% OF TOTAL
Professional, technical, kindred workers	5,435	14
Managers & Administrators except farms	3,368	9
Sales workers	3,518	9
Clerical and kindred workers	6,548	17
Craftsmen, Foremen, kindred workers	2,791	7
Operatives, except transport	4,286	11
Transport equipment operatives	1,603	4
Laborers, except farm	1,908	5
Farmers and farm managers	409	1
Farm laborers, farm foremen	2,543	9
Service workers, except private household	4,548	12
Private Household workers	1,268	3
Total	38,225	99

SOURCE: U.S.CENSUS OF THE BUREAU. CENSUS OF POPULATION 1970: GENERAL AND SOCIAL CHARACTERISTICS, Table 86, p. 45-551

Brownsville, Texas (Cameron County)

The Brownsville SMSA exhibits many of the same characteristics as the McAllen-Pharr-Edinburg SMSA in regard to population, income, education, and labor force. However, two basic differences should be mentioned.

First, Brownsville is located alongside a fair-sized Mexican border city, Tamaulipas (250,000). As such, the interaction between the two cities is more pronounced than that between McAllen and Reynosa. Similarly, Brownsville's location is not central to the county economy as is McAllen's.

In addition, Brownsville has experienced a growth in the number of industrial firms over the 1970-1975 period, with 70 new firms opening since 1970; and 2000 new industrial jobs announced in 1975²⁰. This rate of industrial growth surpasses that of any other city in the region. Those industries locating represent products and services that include electronic/electrical firms, passenger buses, offshore drilling platforms, drilling rigs, fiberglass swimming pool equipment, paper and plastic shopping bags, toys, collapsible bleachers, shrimp trawlers, corrugated boxes, ores, appliances, plastic injected products, automotive components, oil field drill bits, construction and mining equipment, precision drill bits, fire arms, apparel, seafood, ships, barges, and railroad cars.²¹

HISTORICAL CONSIDERATIONS

Under the terms of the 1848 Treaty of Guadalupe-Hidalgo, Mexico surrendered large amounts of territories to the United States. This treaty also established the present political boundaries between the two countries.

The Rio Grande River proved a clear and natural boundary for the area from Brownsville to El Paso. West of El Paso, arguments were raised

by both countries as to the correct boundary lines. This issue was ultimately settled by negotiation and resulted in the "Gadsden Purchase" of 1853²².

Although borders are designed to impede the flow of commerce and the movement of people, such was not the case along the U.S.-Mexico border for many years. Unrestricted movement by residents of both sides was normal and frequent. Not until the Immigration Act of 1924 was the border officially closed. The Act also provided for the establishment of the Border Patrol and made it a felony charge for anyone to enter the United States illegally.²³ Despite these actions, migration from Mexico persisted.

The violence of the Mexican Revolutionary War combined with U.S. labor shortages resulting from World War I to inspire the first significant Mexican migration of 1910-1919.²⁴ The type of industry located in the Southwest also contributed to migration. Agriculture, ranching, and mining dominated the early industrial base of the Southwest. These industries, highly labor-intensive and therefore magnets for attracting migrant labor, sought to tap a variety of low-wage, unskilled, and legally unprotected workers.²⁵

An official sanction for such worker imports came in the 1940s when U.S. agricultural growers, citing labor shortages caused this time by World War II, requested a contract labor program with Mexico. After initial repudiations from both governments, an agreement was reached in August, 1942. Called the Mexican Labor Program, the plan was better known as the Bracero Program. Under terms of the agreement Mexican workers

in the United States could only be employed in agricultural activities. Any Mexican worker found in some other employment became subject to deportation.²⁶

The program initially offered participants protection in regard to housing, transportation, food, medical needs, and wage rates. However, by 1943, Mexico banned its workers from participating in the Bracero Program in Texas, citing abusive and discriminatory treatment as its reason.²⁷ The initial agreement ended in 1947, but practice continued both informally and by law (P.L. 78-1952) until it was finally terminated by the United States in 1964.²⁸ The consequence of this program, as Briggs contends, was to attract to the Mexican border towns former program participants, who subsequently became illegal entrants.²⁹

Following the Bracero Program's termination in 1964, Mexico began to examine methods by which to adjust to the new situation. The migration of Mexican laborers to Mexican border towns, magnified by the labor contract program created significant population increases in Mexican border towns. Adding to these growth-induced problems were the unemployed Braceros who made the labor situation more severe.³⁰

Mexico responded by forming the Border Industrial Program (La Programa de Industrializacion Fronterizo) in 1965. This program, still in effect, attempts to take advantage of U.S. tariff codes, which allow U.S.-owned foreign-based subsidiaries to assemble products from parts manufactured in the United States. Before beginning the program, the Mexican government made legal modifications on the operation and taxation of foreign firms within Mexico.³¹ Not until 1966, following the establishment of a 12.5 mile wide, free trade zone along the entire

U.S.-Mexico border, did the program begin. Progress was slow, but by 1972, 345 plants were participating in the program with a total employment of 46,000.³² Recently, the program has encountered some difficulties. For example, although the program was conceived to meet the needs of unemployed males (i.e., braceros), the nature of the assembly work is such that between 80 and 90 percent of the Mexican employees to date, are women, between 18 and 24 years of age³³. Secondly, wages to Mexican workers in these plants have increased tremendously. These wage hikes, regulated by the National Commission on Minimum Wages, have caused many firms to reevaluate their participation in the program.³⁴

Mexico has attempted to reduce its dependency on the U.S. economy. The National Frontier Program established in 1960 sought to diversify the economy of Mexico's northern states. The Border Industrial Program attempted to introduce a backward linkage with those American assembly plants locating along the border.³⁵

And in 1971, the Echeverria administration founded the Interministerial Commission for the Economic Development of the Border Zone. This Commission's objectives are: to reduce the import of popular consumption items from the United States into Mexico; to improve municipal infrastructure in Mexican border towns; to help establish medium and small industries for the production of import substitutes to supply local, regional, and national markets; and to develop new agricultural and livestock activities.³⁶

Possibly the most relevant policy to examine in order to gain an understanding of the American-Mexican border situation, is present U.S. immigration policy regarding Mexico. American border immigration policy

contributes to the close ties between U.S.-Mexican border communities. For many years, the process of admitting legal immigrants (green carders) and commuters (white carders) into the United States has been relatively unobstructed. For example, consider the case of the commuter.

As "legal visitors", commuters can remain a maximum of 72 hours within a 25-mile radius of the border; but they cannot seek employment during their stay. However, since the cards bear no date indicating when the commuter crosses the border, there is no way to know how long or how many individuals have been issued cards, or more importantly, how they are employed. As Briggs states, the white cards have become de facto work permits for thousands of commuting Mexicans.³⁷

SUMMARY

As this chapter shows, there have been programs initiated by both governments that have fostered the close association between U.S.-Mexican border communities. At present, some of these programs and policies are still in effect. Chapter One, has attempted to show the reasons behind this close association between border communities, and why the currency devaluation will affect both sides of the border. Chapter Two continues the analysis by focusing on the most observable impacted area, retail business.

CHAPTER TWO

THE DEVALUATION'S IMPACT ON THE RETAIL-WHOLESALE SECTORS

In this chapter, the devaluation's effect on the retail industry of the Brownsville and McAllen SMSAs is examined. A brief discussion of the history of retail activity in the Valley; specifically the 1971-1975 period provides a framework for understanding the reasons behind the wholesale-retail sector's growth during that time. Employment and sales data from 1971-1975 are examined in order to document the employment gains made during this period.

Development in the retail-wholesale sectors has not been aided by any U.S. development policy. Rather, the growth is a reaction to the market advantage created by Mexican currency policies. An evaluation of the wholesale-retail growth is therefore made to pinpoint the products most often purchased by Mexican consumers, thus defining the wholesale-retail divisions in which the devaluation's impact should have been most obvious. Next, interviews with affected border retail merchants are used to illustrate their reaction to the devaluation and subsequent attempts to minimize all costs during the period following. Findings from the interviews will also illustrate which businesses were most affected by the devaluation, and determine the effectiveness of federal assistance in minimizing employment losses. Other considerations that led to the analysis of these particular sectors are explained below.

The retail industry in the Valley region has always dominated economic activity. Large employment gains were made during the period of 1971-1976, especially within a sector that mainly employs low-skilled labor. This new employment suited the region because of the population's limited training and educational experience. Many employment opportunities resulted from this expansion. During this period, the employed labor force increased dramatically, while food stamp participation slowly dropped.³⁸

Retail firms found the region profitable for several reasons. For one, retail firms enjoyed a Mexican market much larger than their local markets. In addition, Mexico's population was becoming more urbanized, especially along their border, and demand for popular consumption goods mounted. As real income increased during this period, it was reflected by increased sales. More importantly, Mexican economic policies contributed to the growing number of Mexican consumers along border retail markets. Inflation measured by the Mexican consumer price index averaged a 16 percent increase per year during the 1971-1975 period.³⁹ Thus, as the Mexican peso's purchasing power decreased domestically, its fixed parity with the U.S. dollar maintained its purchasing power abroad. This was the major reason for the retail sector's growth during the 1971-1976 period.

Since this sector's rapid growth has been curtailed, it is appropriate to examine retailer's reactions to the Mexican currency devaluation. First, however, an explanation of the collection process for the data used in the analysis of retail reaction is needed.

Employment and Sales Data

Prior to interviews with local businessmen, an attempt was made to collect employment data on a disaggregated basis by retail division. Employment information was not available in the described form. However, data available from the Texas Employment Commission did provide covered employment by industry. Table 5 depicts this information for 1971 and 1975. Covered employment refers to those employees covered under the Texas Unemployment Act of 1972. Although this Act does not cover all workers, the information provided a basis on which to examine employment gains over the five-year period.

During the 1971-1975 period, within the McAllen-Pharr-Edinburg SMSA, the largest absolute employment gains were experienced in the wholesale-retail and service sectors. Employment in the wholesale-retail sectors grew by 5755 workers, while service employment increased by 4724. These two industries accounted for 57 percent of the net increase over this period.

During the same period, Brownsville experienced its major employment gains in the retail-wholesale (4345), manufacturing (4751), and service (3590) sectors. These absolute increases represented 77 percent of the covered employment gains over the period.

TABLE 5

MCALLEN-PHARR-EDINBURG SMSA (HIDALGO COUNTY)

COVERED EMPLOYMENT

INDUSTRY	1971	% of TOTAL	1975	% of TOTAL	SEPT. 76	DEC. 76
MINING	744	3.3	948	2.3	1050	1010
CONSTRUCTION	1785	7.9	3335	8.1	3540	3420
MANUFACTURING	3639	16.1	5506	13.4	6320	6630
TRANSPORTATION	1487	6.6	2128	5.2	2110	2140
WHOLESALE & RETAIL	10508	46.3	16263	40.4	16330	17980
FIN., INS. & REAL ESTATE	935	4.1	1665	4.0	1720	1710
SERVICES	2539	11.2	7263	18.0	6620	6490
STATE GOVERN.	N.A.	N.A.	2668	6.0		
FEDERAL GOVERN.	1033	4.6	1351	3.0	[13170]	[13490]
TOTAL	22670	100.1	41127	100.4	51160	52870

BROWNSVILLE-HARLINGEN-SAN BENITO (CAMERON COUNTY)

COVERED EMPLOYMENT

INDUSTRY	1971	% of TOTAL	1975	% of TOTAL	SEPT. 76	DEC. 76
MINING	83	.3	55	.1	70	70
CONSTRUCTION	1784	7.0	2642	7.0	3100	2960
MANUFACTURING	5358	22.0	9703	24.0	8830	8860
TRANSPORTATION	2467	10.0	2612	6.0	2850	2790
WHOLESALE & RETAIL	8979	37.0	13730	34.0	13620	13660
FIN., INS. & REAL ESTATE	1184	5.0	2536	6.0	2490	2420
SERVICES	3383	14.0	6973	17.0	8480	8510
STATE GOVERN.	N.A.	N.A.	1521	4.0	N.A.	N.A.
FEDERAL GOVERN.	782	3.0	795	2.0	N.A.	N.A.
TOTAL	24020	98.3	40567	100.1	39440	39270

¹ Calculated by using quarterly averages of county covered employment figures. Source: Texas Employment Commission, Covered Employment and Wages, Austin, Texas 1971-1975.

² Nonagricultural Wage and Salary Estimates & Forecasts. Source: Texas Employment Commission, Manpower Trends. Austin, Texas. January 1977.

N.A.= not available

In addition to employment data, gross sales data were obtained from the Texas Comptroller's Office of Public Accounts. Table 6 presents gross sales data by industry. This information clearly demonstrates the dominance of the trade sector in both the Brownsville and McAllen SMSAs. The figures show the retail and wholesale sector claiming over 75 percent of total gross sales in each county.⁴⁰ Table 7 provides further sales breakdowns within the retail sector. These data show the general merchandise division accounts for the largest amount of gross sales in each county. Other divisions with high gross sales figures are auto dealers and gas stations, and apparel and accessory divisions.⁴¹

Other relevant findings come from an earlier study of three border towns (Juarez, Tiajuana, and Mexicali) conducted by the Banco de Mexico, which reported the primary articles imported by Mexican citizens. These were food, drinks, clothing, shoes, furniture, and household appliances.⁴² With this information, interviews conducted by this author in late December attempted to construct the sequence of events following the devaluation for retail merchants in those categories. Three variables controlled for were the size of the establishment, its merchandise selection, and the establishment's location in the city.

Findings

From talks with businessmen, it is evident that although the peso's devaluation did not come as a surprise, its timing did. As early as January 1976, economic news reports had hinted at a pending devaluation.⁴³

TABLE 6

MCALLEN-PHARR-EDINBURG SMSA (HIDALGO COUNTY)
GROSS SALES BY INDUSTRY (THOUSANDS OF DOLLARS)

INDUSTRY	1971	% of TOTAL	1975	% OF TOTAL
AGRICULTURE, FORESTRY & FISHING	\$ 8180	1.3	\$ 30810	2.9
MINING	1519	.2	6109	.5
CONSTRUCTION	14025	2.1	22508	2.0
MANUFACTURING.....	65700	10.3	109938	10.2
TRANSPORTATION.....	22545			
COMMUNICATION ELECTRIC & GAS.....	22545	3.5	14061	1.3
WHOLESALE	115548	18.1	237113	21.9
RETAIL	389875	61.0	623067	57.6
FIN., INS., & REAL ESTATE.....	28	----	N.D.	----
SERVICES	20765	3.2	37481	3.5
PUBLIC ADMINIS.....	N.D.	----	N.D.	----
TOTAL	\$638185	99.7	\$1081096	99.9

BROWNSVILLE-SAN BENITO-HARLINGEN (CAMERON COUNTY)
GROSS SALES BY INDUSTRY (THOUSANDS OF DOLLARS)

INDUSTRY	1971	% OF TOTAL	1975	% OF TOTAL
AGRICULTURE, FORESTRY & FISHING.....	\$ 1736	.3	\$ 877	.1
MINING	N.D.	----	N.D.	----
CONSTRUCTION	10333	2.2	16232	1.8
MANUFACTURING	69202	14.9	152132	16.9
TRANSPORTATION	16725	3.6	12071	1.3
COMMUNICATION ELECTRIC & GAS				
WHOLESALE.....	71992	15.5	187771	20.9
RETAIL	279740	60.4	500488	55.9
FINANCE, INS., & REAL ESTATE.....	1003	.2	3717	.4
SERVICES.....	11934	2.6	21827	2.4
PUBLIC ADMINIS.	N.D.	----	N.D.	----
TOTAL	\$ 462719	99.7	\$ 895145	99.7

N.D.= Not Disclosed

Source: Sales Tax Analysis for Standard Metropolitan Statistical Areas,
Texas Comptroller's Office of Public Accounts.
Austin, Texas. 1971-1975.

TABLE 7

MCALLEN-PHARR-EDINBURG SMSA (HIDALGO COUNTY)

GROSS SALES BY RETAIL DIVISION
(Thousands of dollars)

RETAIL DIVISION	1971	% Total	1975	% Total
Building Materials	\$ 34,770	9	\$46,960	8.3
General Merchandise	50,846	13	99,318	16.5
Food Stores	128,912	33	158,066	26.2
Auto Dealers & Gas Stations	80,464	21	129,848	21.5
Apparel & Accessory	23,328	6	36,975	6.1
Furniture and Home Furnish.	11,749	3	24,481	4.0
Eating & Drinking Places	16,950	4	34,107	5.7
Drug Stores	10,186	3	14,863	2.7
Liquor Stores	1,512	.4	3,058	.5
Miscellaneous Retail	31,875	8	55,390	9.2
Total	389,875	100.4	603,066	100.7

BROWNSVILLE-SAN BENITO-HARLINGEN (Cameron County)

GROSS SALES BY RETAIL DIVISION
(Thousands of dollars)

RETAIL DIVISION	1971	% Total	1975	% Total
Building Material	28,347	10	29,977	6
General Merchandise	57,966	21	111,806	22
Food Stores	53,960	19	109,598	22
Auto Dealers & Gas Stations	58,944	21	81,390	16
Apparel & Accessory	21,672	8	33,893	7
Furniture & Home Furnish.	9,713	3	24,998	5
Eating & Drinking Places	15,655	6	31,199	6
Drug Stores	5,846	2	13,423	3
Liquor Stores	1,952	1	3,046	1
Miscellaneous Retail	25,685	9	63,198	13
Total	279,740	100	500,528	101

Source: Texas Comptrollers Office of Public accounts. Sales Tax Analysis by Standard Metropolitan Statistical Area.
1971-1975. Austin, Texas.

Interviews revealed a particular reaction pattern among McAllen retail merchants following the devaluation. During the first week, retailers cancelled all open orders and attempted to reduce inventories through price markdowns. In many cases, sales remained in effect throughout the Christmas shopping season.⁴⁴

Retail merchants next attempted to reduce operating expenses, both personnel and non-personnel related. Employee cutbacks first hit part-time workers, while retailers scheduled full-time employees for less than the normal 40-hour week. Even the large national franchises initiated substantial employee cutbacks.⁴⁵

Although all retailers interviewed agreed sales dropped during September, several contended that sales increased slightly following the price markdowns. It is difficult, however, to collect data to substantiate these claims.

Data currently available for a crude analysis are monthly City Sales and Use Tax Allocations, but such data are inadequate because the allocations are determined by the amount of taxable sales reported by business. Business has the option of reporting either monthly or quarterly. So, one might expect those months ending the quarter to display a higher sales tax allocation figure than other months, since more businessmen would then be reporting. This occurs, unfortunately, however, the allocation figures demonstrate time lags of two months. Thus, September sales figures are not reported until November. For a more comprehensive analysis, it would be necessary to examine the entire September to February time period, since the December and January period is regarded as a high sales

season. It is important to know how the devaluation will affect this traditionally high sales season since this knowledge could provide insight into future Mexican consumption patterns.

With the October devaluation, the peso exchanged at a rate of 25 to one U.S. dollar. Thus the Mexican government had effectively doubled the cost of foreign goods in a period of less than two months. Merchants saw the situation as hopeless.⁴⁶ They reasoned that with price markups of 35 to 100 percent, coupled with the 100 percent markup by the devaluation, it seemed unlikely that 20 to 30 percent discounts would attract Mexican customers.⁴⁷ Further discounts, above these, would mean offering items at wholesale cost.

After a short period of disagreement within merchant associations, most merchants chose to accept the peso at the daily exchange rate, apparently considering any purchase to be better than none. Sales continued, in order to reduce inventories, as did employee layoffs and reduced workweeks.⁴⁸

Following the second devaluation, many stores ran sales on selected items, generally slow-moving merchandise not on reorder.⁴⁹ When sales slowdowns eventually became apparent, most retail merchants attempted only to meet operating expenses until the peso stabilized.⁵⁰

Merchants carrying merchandise subject to seasonal demand (clothing, electronics equipment, etc.) found themselves in a different predicament. Their reaction suggested a store policy of liquidating those items at a cost, prompted by the difficulty of selling such items out of season or after they became obsolete.⁵¹

In some cases, establishments unable to meet operating expenses accepted pesos at higher than the official exchange rate; in effect offering greater discounts to buyers.⁵² Retail merchants generally agreed that sales improved as the Christmas holiday season approached.⁵³ Again, sales figures for the period are not available.

Factors Affecting the Devaluation's Impact on the Retail Sector

Logically, those businesses most heavily dependent on Mexican customers suffered most, following the devaluation. In McAllen, the downtown retail area and a recently opened shopping mall experienced heavy sales losses. Their dependence on Mexican trade had been spurred by the transit service from Reynosa, Tampaulipas to McAllen, that primarily services the downtown area.

Retail markets located away from the McAllen downtown area also experienced sales losses, but to a lesser degree. Their location in a different market area coincided with their lesser dependence on Mexican customers. These retail merchants did attribute lost sales to the devaluation, but for these establishments, reaction translated into fewer part-time employees rather than extensive cutbacks and layoffs.⁵⁴

Local stores of national chains (Penny's, Montgomery Wards, Sears) experienced a smoother and less costly adjustment following the devaluation. One manager of a national retail outlet revealed the store's policy of selling irregular merchandise along the U.S.-Mexican border.⁵⁵ These items, purchased at special discounts,

result in significant savings for the store over regular wholesale costs, and at the same time the lower wholesale costs provide a competitive advantage over smaller retail stores.⁵⁶ It was also disclosed that the parent company cooperated in cancelling open orders and offered concessions on selected sales items to their chainstores on the border, following the devaluation.⁵⁷ Another interview with a national chainstore manager disclosed that the parent company was absorbing losses incurred by the conversion of pesos to dollars. These losses particularly created problems for smaller retail outlets, especially those cashing drafts written on Mexican banks. Losses occurred when checks drawn on these banks took several weeks to process, during which time the exchange rate was subject to fluctuation. This, however, was a short-term problem.

At anytime, smaller retail merchants face operating disadvantages not experienced by national retail outlets, because their purchasing methods cannot match those of large chainstores in economies of scale. Consequently, smaller retailers face a higher wholesale cost, which translates into a higher cost per item. Large national retail outlets cannot only match the prices of small retailers, but in some cases, offer selected items at cost in order to create customer traffic, a practice the small retailer may not be able to afford.

Another difficulty, however, during this period for small retailers was their limited merchandise selection. Downtown area stores (specializing in clothing, electronic equipment, and household appliances) faced stiff competition from the large department and general merchandise stores.⁵⁸ It seems reasonable to conclude that

department stores, with their larger merchandise selection, and lower wholesale costs, held a distinct advantage during the adjustment period.

Employment Estimates in the Wholesale and Retail Sectors

Employment in the retail sector has always been a significant part of the U.S. border labor market. In recent years, the growth in employment opportunities in this sector has been tremendous, largely because its popularity as a tourist area has increased and Mexican shoppers have frequented the area in increasing numbers. [See table 5 for employment data] Any discussion of the devaluation's impact on retail employment must include the number of workers affected. Before describing the method of calculating the number, a discussion of data problems is in order.

One difficulty with the data for this analysis is that the employment figures compiled by the Texas Employment Commission include only those employees covered by the Unemployment Insurance Program: therefore their numbers are not wholly representative of employment in the region. Another drawback of the data is caused by inaccuracies in part-time and seasonal employment that results from the omission of workers not covered by unemployment compensation. This is especially true in agricultural industries and retail-wholesale firms. Since many unemployed workers did not register at the local employment commission office, the unemployment rate does not give a true indication of those affected by the devaluation. In addition, figures are not collected in a disaggregated form by industry, thus making analysis difficult.

For example, migrant farmworkers returning to their winter base in

the area were not separated, by occupation, from other unemployed groups in the statistics. The time frame of this study made it difficult to separate their presence in the data from those left unemployed by the devaluation.

Weather also acted to distort employment data. Heavy rains during November and December created slowdowns in agricultural operations. The resulting layoffs are grouped, with devaluation slowdowns and layoffs making accurate analysis difficult.

Because of the above problems encountered in data collection, another method of estimation was utilized. In this process, percentage breakdowns of employment by retail and wholesale divisions were calculated using survey data from March, 1973 Texas County Business Patterns.⁵⁹ The March, 1976 covered employment figures, reported by the Texas Employment Commission were distributed using the calculated percentages.. In the counties studied data collected by the two agencies only slight percentage variations.

By distributing 1973 percentages to 1976 employment figures, the analysis assumes a constant growth of each division in the retail-wholesale sector over the 1973-1976 period. We know this not to be the case since gross sales over the period show variation throughout the different retail divisions (if we allow gross sales to be a measure of growth). Also, the figure underestimates seasonal employment since the month we examine is March and not the holiday period of November to January. Nonetheless, the estimate does give a "ballpark figure."

In the McAllen-Pharr-Edinburg SMSA (1973), these retail divisions reporting a high percentage of covered employment were: auto dealers and

gas stations (28.4%), food stores (10.7%), eating and drinking places (10%), and general merchandise (10%).

Most interesting is the general merchandise division, which includes department stores, variety stores, and miscellaneous general merchandise stores. The general merchandise division is isolated because, as previously mentioned, many of the items imported by Mexican consumers are found in that division (household appliances, clothing, furniture, and shoes). Table 8 presents these retail and wholesale labor force estimates for the McAllen-Pharr-Edinburg SMSA and the Brownsville-Harlingen-San Benito SMSA.

TABLE 8

RETAIL AND WHOLESALE LABOR FORCE ESTIMATES

MCALLEN SMSA			BROWNSVILLE SMSA	
DIVISION	% BREAKDOWN OF TOTAL DIVISION (1973)	ESTIMATED MARCH, 1976 LABOR FORCE	% BREAKDOWN OF TOTAL DIVISION (1973)	ESTIMATED MARCH, 1976 LABOR FORCE
WHOLESALE				
Motor Vehicles & Auto Equipment	2.3	418	.91	120
Groceries and Related Products	28.4	5166	10.09	1321
Farm Products & Raw Materials	.8	146	.47	62
Hardware, plumbing Heating Equipment	n.a.	n.a.	.89	118
Machinery, Equipment Supplier	2.4	437	2.79	369
Miscellaneous	4.7	855	6.23	823
Subtotal	38.6	7440	21.38	2813
RETAIL				
Building Materials	3.9	709	3.75	495
General Merchandise	10.0	1819	16.81	2221
Food Stores	10.7	1946	10.57	1396
Auto Dealers & Service Stations	11.1	2019	11.38	1503
Apparel & Accessory	6.6	1200	8.30	1096
Furniture	3.2	582	3.17	419
Eating and Drinking	10.0	1819	15.29	2019
Miscellaneous	6.0	1091	6.79	893
Subtotal	61.5	11185	76.03	10042
Total	100.1	18625	97.41	12885

Sources: U.S. Economic Surveys Division [With Assistance from Local Security Administration].
1973 Texas County Business Patterns. Government Publications No. C-56.253-72-45

SUMMARY

In past years, the retail sector has dominated the Valley's economic activity. Employment gains occurred in the period from 1971-196 and during that time food stamp participation dropped. The region was profitable for retail firms and Mexican consumers constituted a large percentage of their market.

However, with the devaluation, changes occurred. The timing of the devaluation surprised many businessmen who attempted to minimize their losses by cancelling orders, holding sales, and instituting employee cutbacks. Those businesses most affected by the devaluation were those located closest to the border, thereby most dependent on the business of Mexican shoppers; and those with a limited merchandise selection. Local stores of chain outfits were also less affected by the devaluation than the small independent retailer.

In any event, despite problems with data collection, it is obvious the retail sector suffered revenue losses following the devaluation. Problems in the data caused by reporting lags and imprecise recording methods make it difficult to ascertain the devaluation's precise impact on the retail sector. It is safe to say, however, that the low-skilled employees found in the retail sector suffered from employee cutbacks brought about by the devaluation. Furthermore, findings from the interviews show that retail businesses will continue to minimize all costs, including personnel, for an indefinite period. This suggests that any federal assistance to retail businessmen will not bring back employment to the levels prior to the devaluation.

This situation provokes serious questions about the area's future development especially since the retail sector comprises such a large percentage of the area's total employment. Thus, the question arises of the applicability of federal assistance to the area, and in Chapter 6 the conflicting arguments behind the theories of federal assistance to depressed areas is presented. Opponents to federal assistance would argue that the retail sector's growth during the 1971-1976 period was a normal market reaction resulting from Mexico's currency policies. These policies created a competitive market advantage over other retail locations and thus was taken advantage of by private retail firms. Now that the devaluation has eliminated this market advantage for the area, competitive market forces should be allowed to create a new equilibrium, disregarding employment losses, those opponents to federal aid would say.

As will be shown in Chapter 6, present development strategies in the area have not involved the retail sector. Instead most efforts made by the Economic Development Administration have been directed at investment in physical infrastructure and technical assistance to locating businesses. Because little assistance is available to the retail sector, this study begins to examine other strategies that could be implemented at this time. These strategies will be discussed in more detail in Chapter 7.

CHAPTER THREE

THE IMPACT ON BORDER FINANCIAL INSTITUTIONS

News accounts reported a substantial capital outflow from Mexico both before and after the August 31 decision to devalue was announced. These accounts provoked an examination of the amount and use of these funds. By using demand and time deposit data, this analysis examines the rise in deposits in commercial banks following the devaluation. Interviews with commercial bank officials describe the investment created by these deposits.

In addition, savings and loan data from the two cities document the decrease in new loans following the devaluation, while interviews with these banking officials provide speculation on the future lending policy of savings and loans. The chapter concludes with an attempt to understand, again through interviews, how financial institutions perceive their role in the economic development of the area. A more activist development role for these institutions, and its resulting benefits for the area is then proposed.

COMMERCIAL BANKS

Rumors of a possible devaluation provided an incentive for the conversion of pesos to dollars before August 31, and many Mexican depositors protected themselves against the possibility of financial loss by depositing the converted pesos in American banks. Most of these deposits were reportedly placed in 90-day Certificates of deposit. Smaller banks located in neighboring towns did not experience these flow of funds.⁶⁰ Although the available bank data suggest the devaluation did have an impact on deposits, the information as presented here is not conclusive. For that to be

the case, data should have been presented from comparable periods in time. Nonetheless, Table 9 presents time and demand deposits data from federal member banks in McAllen and Brownsville.

As the table shows, federal member banks in McAllen reported an increase of approximately \$10 million in time deposits in October, moving from \$129.6 million to \$139.2 million. This represented a 7 percent increase over September, and the largest percentage increase of the months examined. October demand deposits decreased slightly from \$86.3 million to \$84.1 million.

In Brownsville, the pattern was the same. Time deposits for September reported a drop of \$695,000 but increased dramatically in October by approximately \$20.9 million, an 8.7 percent gain over September's total deposits. November netted an additional \$14 million increase in time deposits. Demand deposits in October decreased by \$9 million, from \$157.2 million to \$148.3 million.

Interviews with bank representatives made it clear that the new deposits were not likely to produce long-term bank investments because of uncertainty over the deposits' duration. Two bank officials labeled them "hot funds" and warned that committing the volatile deposits to long-term investment could endanger the bank's reserve position if the deposits were later withdrawn. (61)

Interviews suggested that much of Mexican capital is

TABLE 9

DEMAND AND TIME DEPOSITS FOR FEDERAL MEMBER BANKS, BROWNSVILLE, TEXAS
(Thousands of dollars)

PERIOD ENDING	DEMAND DEPOSITS	PERCENT CHANGE	TIME DEPOSITS	PERCENT CHANGE
3/76	\$145,627		\$216,898	
4/76	148,886	2	227,867	12
5/76	140,989	-6	228,704	-
6/76	149,228	6	229,021	-
7/76	140,217	-6	233,154	2
8/76	156,309	11	237,964	-
9/76	157,215	1	237,237	-
10/76	148,317	-6	259,091	9
11/76	152,556	3	273,123	5
12/76	152,151	-	285,030	4

DEMAND AND TIME DEPOSITS FOR FEDERAL MEMBER BANKS, McAllen, Texas
(Thousands of dollars)

PERIOD ENDING	DEMAND DEPOSITS	PERCENT CHANGE	TIME DEPOSITS	PERCENT CHANGE
3/76	\$85,997		\$120,707	
4/76	89,861	4	127,056	5
5/76	87,052	-3	128,825	1
6/76	86,850	-	129,723	1
7/76	85,693	-1	130,406	1
8/76	84,737	-	130,332	-
9/76	86,326	2	129,637	-1
10/76	84,145	-3	139,239	8
11/76	82,804	-2	139,136	-
12/76	90,339	9	143,950	3

Source: FEDERAL RESERVE BANK, SAN ANTONIO BRANCH OFFICE.
DEMAND AND TIME DEPOSIT DATA. San Antonio, Texas.
January, 1977.

invested in securities. The active securities trading market makes it attractive to banks since it allows for adequate liquidity. Bank officials also disclosed some banks' policy of lending money from the new deposits to other banks in order to maintain their reserve requirements. Forms of bank investment probably varied considerably because of the tremendous amounts in new deposits. However, if any investment pattern emerges, it is certainly characterized by the word "short-term". (62)

Savings and Loans

The fourth quarter 1976 Savings and Loans figures present a clearer indication of the devaluation's effects on the banking industry. These effects are most pronounced on the lending side. Table 10 presents data on the amount of new savings, withdrawals, and new loans in the McAllen-Pharr-Edinburg and Brownsville-San Benito-Harlingen SMSAs.

The figures show a sharp drop in all three categories.

In the McAllen-Pharr-Edinburg SMSA, new savings dropped \$5.6 million in the third quarter, 1976 figures, from \$7.9 million to \$2.3 million. Minus withdrawals, the quarter showed a gain of \$778,000, again down from \$2.1 million in the previous quarter. Of significance is the decrease in new loans. This amount decreased by \$4.2 million in third quarter figures, moving from \$5.6 million to \$1.4 million.

For the Brownsville-Harlingen-San Benito SMSA, the losses are more significant. New savings dropped \$19.2

million from the previous quarter, from \$29.7 million to \$10.5 million. Minus withdrawals, the gain for the quarter was \$2.3 million down from the third quarter figure of \$8.4 million. Likewise, new loans also dropped off considerably, falling from \$15.8 million in the third quarter of 1976 to \$5.6 million in the fourth quarter, 1976; a loss of \$10.2 million. (Percentages are found in Table 10)

Interviews with Savings and Loan officers in McAllen disclosed particular policy changes in the savings and loans industry, following the devaluation:

1. Loan paybacks accepted in U.S. dollars only.
2. Mexican depositors discouraged from trading with savings and loans.
3. Closer examination of business operations before making commercial property loans. (Property value no longer sole determinant for securing loan.) (63)

According to the officers, the first policy change came about as a result of the daily fluctuation in the peso's exchange value for the dollar, while the second policy change was in response to the "softness" of the Mexican deposits. Since savings and loans primarily provide home mortgage loans, the risk of accepting large amounts of Mexican deposits placed future pressure on their liquidity position. Moreover, to accept deposits that were unsuitable even for short-term transactions, i.e., consumer loans, would be costly in terms of transacting and holding those funds. Finally, the third policy change came in response to business slowdowns

TABLE 10

BROWNSVILLE-HARLINGEN-SAN BENITO SMSA (CAMERON COUNTY)

SAVINGS AND LOAN DATA
(Thousands of dollars)

QUARTER ENDING	TOTAL SAVINGS	% CHANGE	NEW SAVINGS	% CHANGE	WITH- DRAWALS	% CHANGE	GAIN FOR QUARTER	% CHANGE	NEW LOANS	% CHANGE
6/30/75	\$166,122		\$28,379		\$19,225		\$9,154		\$11,774	
9/30/75	173,495	4	25,959	-9	19,929	4	6,030	52	10,363	-14
12/31/75	179,928	4	26,783	3	21,767	8	5,017	-20	11,675	11
3/31/76	193,448	7	34,241	22	22,400	3	11,040	120	13,360	13
6/30/76	200,677	4	30,259	-13	24,709	9	5,550	-99	16,825	21
9/30/76	211,525	5	29,736	-2	21,264	-16	8,472	66	15,860	-6
12/31/76	223,645	5	10,528	-182	8,250	-156	2,278	-272	5,620	-182

MCALLEN-PHARR-EDINBURG SMSA (HIDALGO COUNTY)

SAVINGS AND LOAN DATA
(Thousands of dollars)

Quarter ENDING	TOTAL SAVINGS	% CHANGE	NEW SAVINGS	% CHANGE	WITH- DRAWALS	% CHANGE	GAIN FOR QUARTER	% CHANGE	NEW LOANS	% CHANGE
6/30/75	\$56,340		\$6,435		\$4,196		\$2,238		\$3,527	
9/30/75	58,198	3	5,483	-17	4,272	2	1,211	-85	4,186	16
12/31/75	61,399	5	6,087	10	3,625	-18	2,462	49	4,306	3
3/31/76	66,031	7	10,005	39	6,177	69	3,828	55	4,305	-
6/30/76	68,478	4	7,672	-30	6,203	-	1,469	-161	5,624	31
9/30/76	71,526	4	7,943	3	5,792	7	2,151	46	5,636	-
12/31/76	75,915	6	2,326	-241	1,548	-274	778	-176	1,441	-291

SOURCE: TEXAS SAVINGS AND LOAN DEPARTMENT, SAVINGS AND LOAN DATA. AUSTIN, TEXAS. FEBRUARY, 1977.

and possible subsequent loan defaults by financially pressed businessmen. (64)

THE ROLE OF FINANCIAL INSTITUTIONS IN ECONOMIC DEVELOPMENT

In the period following the devaluation when it is recognized that there will be a decline in economic activity, it is evident that the banking industry can play a role in fostering economic development within the region because of its financing capability. Financial institutions can play a role in economic development. The extent of their participation in a region's development, however, is largely determined by their interpretation of the institution's place in the development process. Determining this perception was a key objective during interviews with banking officials.

If financial institutions located in depressed areas, such as South Texas, see their objectives and policies as similar to those of financial institutions located elsewhere; and that is to seek long-run profits by lending and investing the funds at their disposal at as high a rate of return as is consistent with an appropriate degree of principal, (65) then it is very likely those funds will flow into areas paying the highest for their use. However, since investment in a depressed area does not provide the highest rates of return, this means a further depletion of resources from a depressed area can be expected in the long run. As Dominguez points out:

In societies in which there are extreme regional differences in industrial activity, there will be

a general tendency for capital to migrate to richer areas, thus causing a backward effect that would tend to lessen investment to poorer regions of the economy. There are certain side effects from these capital shortages. If a community continues to experience a capital bypass, the outcome will be a further decrease in the level of economic activity due to limited potential for technological improvements. (66)

Aside from technological improvements, there are many other costs to the region because of this "capital bypass". Human resource investment and infrastructure investment are limited as well as many other investment and multiplier effects. Thus, much of this disinvestment is linked to the capital shortage and the objectives of financial institutions.

The point that should be clear is that there are potentially viable enterprises in depressed areas; but that these enterprises are regarded as poor investments because internal bank analyses do not accurately evaluate the long-term economic benefits of such projects. Their main concern is the private costs of lending those funds, and this increases the importance of examining a more appropriate future role for these institutions.

For a successful long-term development program to occur within a depressed region, financial institutions must acknowledge their role in that effort and then reflect that acknowledgement in their lending practices. In practice, financial institutions might begin by shifting small portions of their loan portfolios into higher risk ventures, thus freeing some funds

for projects that otherwise would not be funded. The objective of such a move would be to allow innovative and high-risk ventures to occur. However, if higher-risk is related to a reduced capacity for repayment within certain time periods, the financial institutions must be flexible in arranging terms of repayment.

This policy change would serve three functions: it would transfer resources from traditional uses into innovative, non-traditional ones; these marginal enterprises or service delivery projects could promote and stimulate an entrepreneurial response in those ventures funded. This response alone might be an effective training mechanism since a criticism of classroom vocational training has usually been that the trainee learned his job on the job.⁶⁷ The success and/or creativeness of these enterprises might attract attention and funds from other sources. By activating small amounts of bank portfolios in certain projects or enterprises, these results could be achieved.

Summary

To begin, this chapter's analysis examined the devaluation's apparent impact of increasing bank deposits in commercial banks. Although the bank data presented suggest the devaluation did have such an impact on the commercial banks, the information presented in this chapter is not conclusive. Therefore, interviews with bank officials

were utilized to augment the data. These interviews suggested that inflowing Mexican capital was invested in securities in order to allow for liquidity if the deposits were suddenly withdrawn.

Data from savings and loans however, presented firmer evidence to show the devaluation's effects. The evidence was most apparent in the fourth-quarter figures collected by the Texas Savings and Loans Department and reported both McAllen and Brownsville SMSAs with significant drops in savings and new loans.

The banking industry has grown as a direct result of the retail sector's growth during the early 1970s. It has never acknowledged the possibility of its own role in encouraging development. Rather, it has operated to maximize profits as would any private firm. Because the devaluation creates a depressing effect on the area's economy, the role financial institutions could play in the area becomes more important. Therefore, in the final section, the analysis suggests new lending methods that could aid in the border's development. In chapter 7, the potential beneficiaries of these proposed changes in the lending policies of the financial institutions are examined, namely, cooperatives and community development corporations. The ability of these rural organizations to initiate enterprises with the assistance of financial institutions will be discussed.

CHAPTER FOUR

THE DEVALUATION'S IMPACT ON STATE-OPERATED PROGRAMS

Following the devaluation, there was much talk about the increased government welfare cost attributed to the devaluation's effects. In keeping with a significant theme of this analysis, that is, reporting the effects of the devaluation, several state-operated income-maintenance programs were examined. Two programs in particular, the Unemployment Compensation Program operated by the Texas Employment Commission and the Food Stamp Program maintained by the Texas Department of Public Welfare, drew the most attention. These programs were primarily examined to estimate direct and indirect employment cutbacks. In addition, the program data illustrate the need for questioning the area's development, as well as providing information on economic trends over the period of 1971 to 1976.

State Unemployment Compensation Program

It should be noted that not all employees are covered by the Texas Unemployment Compensation Act of 1972. In the border area this is especially significant, since agriculture workers and domestic workers are excluded from the Act.⁽⁶⁸⁾ Table 11 presents the number of workers covered by unemployment insurance and the estimated employed labor force. The figures demonstrate that approximately 60 percent of total employment is covered under the Act.

TABLE 11

TOTAL EMPLOYMENT AND COVERED EMPLOYMENT BY QUARTER

McALLEN-PHARR-EDINBURG SMSA

Quarter	Total Employment	Covered Employment	Percent Covered
1st	62,617	40,151	64
2nd	60,950	40,035	65
3rd	60,440	40,019	66
4th	62,383	41,991	67

BROWNSVILLE-HARLINGEN-SAN BENITO SMSA

Quarter	Total Employment	Covered Employment	Percent Covered
1st	68,843	41,383	60
2nd	67,670	41,517	61
3rd	63,133	38,468	61
4th	68,690	43,220	63

¹Includes resident wage and salaried workers, self-employed, unpaid family workers, and domestics in households, agricultural workers and those involved in labor-management disputes.

SOURCE: TEXAS EMPLOYMENT COMMISSION, "Covered Employment and Wages", 1975. Austin, Texas.

The responsibility for making payments in the Unemployment Compensation program is shared by the state and federal government. The four categories under which payments are made are: the State, Ex-servicemen, Federal Employees, and Intrastate. The last category refers to a joint responsibility between the state and the federal government.

In examining the total amount of unemployment compensation payments made in the months following the devaluation, the analysis uncovers some unusual changes. Both the Brownsville SMSA and the

McAllen SMSA displayed the same pattern. In September, the month following the devaluation, little change in the amounts resulted. The following month, however, both SMSAs reported a drop in total payments, giving the impression of an improving situation.

In absolute dollar terms, the McAllen SMSA showed a drop of \$58,308,15 percent less than September's total of \$ 388,000. In the Brownsville SMSA, the absolute drop in payments was \$13,798, a 4 percent decrease from \$331,000. The next month, November, showed a significant increase in both counties, a 19 percent gain over September's total figure in the Brownsville SMSA. And although the McAllen SMSA displayed an increase over October's payments, it still was approximately \$20,000 below September's figure.

These figures seem to suggest that initially, employment cutbacks hit those employees not covered by unemployment compensation. However, as the economic situation worsened, new employment cutbacks hit the full-time employees who qualified for the program. Other program data provided on initial claimants reinforces this hypothesis. Table 12 presents these data.

An examination of the information on initial claimants shows a similar trend to that displayed by the aggregate unemployment payments. Examining the data for the Brownsville SMSA, it can be seen that initial claims increased significantly during the months following the devaluation, although total claimants dropped the month preceding the devaluation. The number of initial claimants for the McAllen SMSA depicted the same drop in claims preceding the month of the devaluation, and then a sharp rise in both initial and

TABLE 12

McALLEN-PHARR-EDINBURG SMSA (HIDALGO COUNTY)

INDIVIDUALS ON UNEMPLOYMENT COMPENSATION

Month ¹	U.I. Weeks Claimed	% Change	INITIAL CLAIMS	% Change
9/75	1749		231	
10/75	1597	-9	146	-37
11/75	1845	13	220	34
12/75	1971	6	203	-8
9/76	1660		230	
10/76	1606	3	283	19
11/76	1809	11	303	7
12/76	2195	18	265	-13

BROWNSVILLE-HARLINGEN-SAN BENITO (CAMERON COUNTY)

INDIVIDUALS ON UNEMPLOYMENT COMPENSATION

Month ¹	U.I. Weeks Claimed	% Change	Initial Claims	% Change
9/75	2350			
10/75	1804	-30	239	2
11/75	1887	4	245	17
12/75	2425	23	295	-13
9/76	2454		315	
10/76	2366	-4	234	-26
11/76	2381	1	245	4
12/76	2737	15	324	26

¹Survey taken the week of the 12th.

Source: Texas Employment Commission, Unemployment Compensation Data. Austin, Texas. January 1977. Unpublished material.

total claims, especially in December, 1976.

State Food Stamp Program

The Texas State Department of Public Welfare's Food stamp program was examined in assessing the devaluation's impact for several reasons. For one, the agency's data were available for comparable periods over several years, allowing the consideration of time trends. In addition, program data were detailed so that precise program costs could be figured.

Interviews with local food stamp directors revealed that the program had been affected by the devaluation. At the McAllen program office, it was pointed out that applications increased from 333 in July to 451 in September and 386 in October. ⁽⁶⁹⁾ The figures for this office alone were substantially higher than those figures on initial claimants.

Another measure of increased activity mentioned during interviews was "lead-time". Lead-time refers to the period of time taken by the local office to process an application from the initial request for application to the interview with individual caseworkers. As a result of the increased number of applicants following the devaluation, lead-time increased from the previous average of a one-to-two day period, to a four-to-seven day process. ⁽⁷⁰⁾ In addition, a large number of requests were made by participants for price reductions on the food stamp allotment. A particular example cited was of a caseworker who processed the cases of eight individuals who had received cutbacks in working hours and three individuals who had lost their jobs during September alone.

This caseload was said to be fairly common during the months after the devaluation. (71)

Table 13 below, provides data on the number of program participants, cash value of the food stamps issued, and cash received from participants. The program data were available from both the Brownsville and McAllen SMSAs.

Although interviews with local directors attributed increased program costs to job cutbacks made necessary by the devaluation, such attribution is difficult to substantiate with the program data presented. The figures instead show the number of participants in the program following the devaluation was lower than comparable periods earlier in the program. This drop in participation over the years 1971-1976 was a direct result of employment growth in the area. In other words, the 1971-1976 period of growth with its increasing employment opportunities caused participation in the program to drop. If data are examined in particular periods from 1974-1976, it can be demonstrated that program participation has been declining over several years. Hence, at this time, it is difficult to attribute program participation increases to the devaluation because of the lower participation figures in prior years.

Another drawback with the data is that the figures reflect the presence of an incoming migrant population. As mentioned earlier, many migrant farmworkers use Hidalgo and Cameron counties as a winter base primarily because of the area's varied agricultural employment opportunities. Heavy participation by this group during the winter months pushes the food stamp program participation figures up rapidly. For example, in December, 1974, combined figures for the Brownsville and McAllen SMSAs show an increase of 18,723 participants over the period of September to December.

TABLE 13

MCALLEN-PHARR-EDINBURGH (Hidalgo County)

MONTH	FOOD STAMP PROGRAM					
	NUMBER OF PERSONS	PERCENT CHANGE	TOTAL VALUE OF STAMPS ISSUED	PERCENT CHANGE	CASH RECEIVED	PERCENT CHANGE
Sept. 1974	41,776		1,398,166		459,818	
Oct. 1974	44,817	7	1,501,424	7	478,744	4
Nov. 1974	45,767	2	1,529,588	2	452,644	-6
Dec. 1974	46,158	1	1,531,693	-	491,579	8
Sept. 1975	37,945		1,344,938		436,568	
Oct. 1975	40,986	7	1,438,357	6	466,097	6
Nov. 1975	40,509	-1	1,420,501	-1	467,390	-
Dec. 1975	41,382	2	1,456,125	-2	485,915	4
Sept. 1976	34,174		1,252,786		404,808	
Oct. 1976	35,679	4	1,300,117	4	408,187	1

BROWNSVILLE-HARLINGEN-SAN BENITO SMSA (CAMERON COUNTY)

MONTH	FOOD STAMP PROGRAM					
	NUMBER OF PERSONS	PERCENT CHANGE	TOTAL VALUE OF STAMPS ISSUED	PERCENT CHANGE	CASH RECEIVED	PERCENT CHANGE
Sept. 1974	61,427		2,027,277		626,181	
Oct. 1974	68,819	11	2,351,819	14	687,414	9
Nov. 1974	76,263	10	2,561,891	8	745,358	8
Dec. 1974	75,767	-1	2,537,777	1	768,043	3
Sept. 1975	59,687		2,136,811		636,539	
Oct. 1975	66,337	10	2,343,556	9	713,933	11
Nov. 1975	66,938	1	2,348,684	-	732,980	3
Dec. 1975	68,287	2	2,407,958	2	773,820	5
Sept. 1976	52,986		1,957,573		584,995	
Oct. 1976	57,387	8	2,102,996	7	616,117	5

SOURCE: TEXAS DEPARTMENT OF PUBLIC WELFARE, AUSTIN, TEXAS. DECEMBER 1977.

This represented an 18.1 percent increase over the 1974 September total of 103,203. In 1975 over the same monthly period, the absolute number of participants grew by 12,037, a 12 percent increase over September's total of 97,032. Thus, the program data demonstrate a declining figure over comparable periods in time.

SUMMARY

This chapter has examined the changes following the devaluation in program participation and expenditures of two state-operated welfare programs: the Unemployment Compensation Program and the Food Stamp Program. The findings of these program analyses are as follows:

1. Employees covered by unemployment insurance were not immediately affected by the devaluation.
2. It was not until two months following the devaluation that the Unemployment Insurance Program registered a major increase in participation.
3. Food stamp participation had been declining steadily over the years prior to the devaluation.
4. Although food stamp officials disclosed increased activity following the devaluation, separating the effects of incoming migrants and devaluation victims proved difficult.

In addition, this chapter has presented data documenting the number of participants in income-maintenance programs. The magnitude of this participation leads to a questioning of development strategies that would provide alternatives to these income-maintenance. Chapter 7 of this study, concludes with a discussion of Community Development Corporations and Cooperatives, two alternative development proposals that offer training, and educational benefits, rather than taking a passive income-maintenance role.

PART TWO

OVERALL REGIONAL DEVELOPMENT ISSUES FOR THE LOWER RIO GRANDE VALLEY

As stated in the introduction, this section will examine how the devaluation's impact on the region's retail sector, its financial institutions, and two state-operated income maintenance programs serve to pinpoint the area's critical need for new development strategies. We begin by examining the area's post-devaluation development strategies, U.S. immigration policy along the border, and illegal immigration from Mexico; the three major issues certain to be affected by the devaluation. Development theories, both explaining and challenging the rationale behind federal assistance to the area are next explored, while chapter 7 is devoted to a short discussion of possible alternative strategies in the area.

CHAPTER FIVE

THE MAJOR ISSUES RAISED BY THE DEVALUATION

The devaluation raised significant issues for different areas of the United States; not only border states and communities, but for urban areas of the interior United States as well. These issues as they concern the South Texas border region are post-devaluation development policies, U.S. immigration policy as it concerns the commuter, and illegal immigration from Mexico.

To begin, the analysis focuses on why the region has developed in the way it has; specifically the area's disadvantages for locating firms, such as transportation costs and the low-skilled labor supply. Second, the development is discussed in light of Mexico's economic policies during the 1971-1976 growth period and the subsequent devaluation. A discussion of past development proposals completes the framework for understanding the area's development history. The next step of this analysis is a brief examination of the present development strategies implemented by the Economic Development Administration (EDA) and various other funding agencies. The emphasis and priorities of EDA's development strategies are then mentioned.

The second major issue brought to policymakers' attention by the devaluation is that of the commuter. The devaluation's effects in Mexico provide additional pressure

for increasing numbers of Mexican workers to commute into the U.S. border labor market. The study first explains the commuter's legal status, then follows with a discussion of past and proposed policy responses to the problems created by the commuter.

The chapter concludes with the third major issue raised by the devaluation: the two types of migrants, the target and professional, and explains why the devaluation's impact is likely to increase illegal immigration by target migrants. Data on the number of apprehended aliens will be provided to document the presence of illegal migrants in border areas, followed by speculation of future migration probabilities. Also, the analysis outlines both past and proposed policy responses to the problems caused by the illegal alien and alternatives to these policies proposed by the U.S. Congress, the agriculture industry, Chicano groups, and the Immigration and Naturalization Service (INS). Criticism of proposed policies concerning aliens concludes the chapter.

The Development Issue

The lower Rio Grande Valley has always been a depressed region of the country. Private firms have been reluctant to locate in the region for a number of reasons: a low-skilled poorly educated labor force, the

region's distance from major market areas, and its water shortage being only a few. In the late 1960's and early 1970's, the area experienced a period of rapid growth. This growth was fueled by the Mexican Border Industrial Program of which Brownsville was a major location for U.S. firms participating, and the rapid cost-of-living increase in Mexico. (72) During this period, as Mexican consumer prices increased rapidly relative to U.S. consumer prices, Mexican consumers were attracted to U.S. border retail markets. [From 1972 to October, 1976; the month following the devaluation, the Mexican consumer price index increased by over 100 percent, while real income increased by only 50 percent during this period] (73) This rise in real income coincided with increasing Mexican demand for foreign-made (primarily U.S.) consumer goods. Creating some of this increased demand were the tremendous population growth in Mexican border towns, an increasing urban population, and the growth of the Border Industrial Program.

This large Mexican consumer market sparked a tremendous growth in the retail-wholesale and service sectors of the area. [An increase of over 10,000 jobs in these sectors during the 1971-1975 period in the McAllen SMSA] The rapid growth also contributed to the decreasing pressure for outward migration by the population, especially farmworkers. It is the quick reversal of these trends brought on by the devaluation that raise the following policy concerns:

1. Will the economic consequences of the devaluation create increased pressure for Mexican migration into U.S. border labor markets, thus stimulating increased job competition and outmigration by U.S. border residents? In order to answer, policy makers must know the preferred destinations of incoming migrants, the occupations and industries likely to be affected, and an idea of the migration's magnitude.

2. Since rapid development took place largely because of an overvalued peso, what will happen to development now that the market advantage has disappeared.

These questions require prompt action for several reasons. To allow the region to become depressed from lack of investment creates pressure for outmigration by the labor force. However, in this situation, because of the past growth in the region, the labor force should have undergone some training and work experience. It is possible that this upgrading is substantial enough to attract other labor-intensive industries or the establishment of new enterprises through local and federal government contracts.

Secondly, the border should be viewed as a strategic area within the context of achieving broader policy objectives, such as full employment. Investing in the development of the border regions slows rural population migration into larger urban areas, and could also reduce Mexican migration into urban areas because of the increased job opportunities within the proximity of Mexico. Certain future policy proposals for area development must consider these possibilities, and chapter 7 of this paper will discuss alternative strategies. The present policy responses to these questions are discussed here, following an examination of past proposals for the area's development.

Past Development Proposals for the Area

In 1970, Hansen argued that development in South Texas was not feasible. (74)
He claimed the South Texas region could not generate enough economic growth to significantly impact wages and employment for the Mexican-Americans residing there. Additionally he states the area's remoteness from major

markets precluded any attractive incentives for private firms to locate there. Instead, Hansen theorized that human resource development could provide one solution to South Texas economic problems. He states that providing human resource opportunities (vocational-technical training) to Mexican-Americans would at least give them the option to migrate to other areas with more employment possibilities. Although Hansen considered immigration from Mexico to be detrimental to the economic welfare of the border resident, he proposed no action on this matter.

Four years later, Vernon Briggs examined the South Texas border situation.⁷⁵ Although Briggs did not direct his analysis at the development potential of South Texas, he clearly stated that development must occur in Mexico's northern states before the economic welfare of the border resident would improve. Briggs claimed that immigration and border policies are important features in explaining the depressed nature of the region. Moreover, he added, it is these policies that defeat the purpose of remedial education, migrant assistance, public service employment, and economic development programs.⁽⁷⁶⁾ Finally, Briggs stated that if these programs are in the interest of good foreign relations with Mexico (as stated by some),⁽⁷⁷⁾ then monetary assistance should be substituted to enable Mexico to develop its northern economy.⁽⁷⁸⁾

Both proposals deserve comment. Hansen's examination of South Texas as a potential growth center, makes some questionable assumptions that the area lacks profit potential for locating firms. However, this omits many local enterprises that could operate profitably on a smaller scale by reducing transportation costs, which he considers the area's greatest disadvantage. Additionally, Hansen suggests providing training and educational programs to create migration

opportunities. Hansen neither examines the costs of migration, nor the language, race, and cultural barriers that Chicanos would face.

Briggs stated the commuter problem clearly, but ignores how financial assistance would aid development and decrease migration. He implies the problem is the lack of capital to finance development, but does not explain the structural obstacles inherent in the region.

Present Development Strategies

At present, federal and state development efforts are coordinated by the Lower Rio Grande Valley Development Council. This council was organized, staffed, and put into operation in accordance with Economic Development Administration (EDA) guidelines. The creation of the Council followed the enactment of the Public Works and Economic Development Act of 1965. The purpose of this legislation was to assist economically depressed areas of the United States to develop and implement public works projects that would create new opportunities for long-term employment and economic growth.

In the past, the Council's primary emphasis has consisted of non-human resource development projects; e.g., open-space planning, land-use planning, water and sewer planning, and water pollution control planning.

The Council's development priorities are influenced both by EDA's guidelines and its growth center strategy. By definition, a growth center is a complex consisting of one or more communities or places, which taken together provide, or are likely to provide, a range of cultural, social, employment, trade, and service functions for itself, and its associated rural hinterland. (79) The rationale behind such a strategy is that the growth of this development is then expected to carry over into the

redevelopment areas within the district.

Despite the area's designation as a growth center, no federal funds are targeted for projects. Instead, funding for individual development projects are processed through regular EDA eligibility requirements. Similarly, the South Texas Greater Cultural Basin Commission, a state approach to economic planning and delivery of government services, has never received funds from the State legislature to implement any special programs. Instead, the Commission's recommendations are in direct competition for state funds with other area commissions around the state. These rival commissions usually represent more populated and, politically speaking, more powerful regions of the state.

Most funds for development projects come from federal sources, namely, the Department of Agriculture, Commerce, and Labor. These are briefly described below.

The Department of Commerce includes the Economic Development Administration. As stated earlier, EDA provides funds to eligible organizations in depressed regions of the country. The agency provides grants and loans for the construction of public works, direct business loans, and technical assistance loans for business, industrial and natural resource projects. (80) A more comprehensive examination of EDA's approach to rural development is included in Chapter Six.

The Department of Agriculture does not maintain many programs that affect rural economic development. Two programs that do offer aid to rural communities, however, are the Financial Assistance to

Small Towns and Rural Groups and the Farmer's Home Administration Rural Renewal Loans. ⁽⁸¹⁾ The former offers loans to non-profit groups, cooperatives, and small towns (population under 5000) for municipal improvements. The latter program provides loans and loan insurance in rural areas (similar to the Federal Housing Administration). ⁽⁸²⁾

The Department of Labor provides services in rural areas that are beneficial to meeting the objectives of rural development. For example, the Comprehensive Employment and Training Act (CETA) provides funds for training and supportive services to the unemployed. Of special importance to rural areas is Title VI of CETA. This title focuses attention on public service slots in community-based projects. The importance of this legislation is discussed in Chapter Seven under the heading of public employment programs.

To summarize briefly, this section has discussed the problem of economic development along the South Texas border. It has examined the area's rapid growth during the late 1960's and early 1970's and the reasons for it. Thus, concern arises over the effects devaluation will have on employment, migration and business, etc. Past proposals are examined and their limitations stated. Present development programs practiced by the Department of Agriculture, Commerce, and Labor are described. Criticisms of these programs are presented in later chapters.

The Commuter Issue

The major employment threat to the local U.S. border labor force is not the illegal alien; rather, it is the commuter. As explained earlier, a commuter is a legal visitor permitted a maximum stay of 72 hours in the United States, within a 25-mile radius of the border. However, since the crossing permit cards bear no date indicating when the bearer crossed the border, there is really no way to enforce the law or to determine how long a commuter is actually in the country.

The commuter system rests on administrative interpretation rather than statute. This resulted from a Board of Immigration Appeals decision in 1959 stating the situation was predicated upon good international relations between the United States and Mexico. Consequently, the U.S. worker who competes with Mexican commuters pays a substantial part of what the Secretary of State considers foreign aid.⁸³

The status of the commuter raises the particular concern of increased migration into border labor markets. Although a violation of the law, this practice has been well documented in Ericson's and North's studies. In addition, commuters find it easier to migrate into the interior of the United States as a commuter rather than as illegal aliens because they are not questioned by the U.S. border patrol.

During November, 1976 to January, 1977, figures on the number of crossing commuters were unavailable. This drawback made it difficult to identify the number and occupations of workers affected by the devaluation. The lack of data was especially

important since many retail merchants interviewed identified the severest employment cuts coming at retail establishments employing high numbers of commuters. ⁽⁸⁴⁾ Furthermore, with unemployment estimated at 40 percent of the labor force in Reynosa, (the twin city of McAllen), it becomes a serious issue to examine.

Policy Responses to the Commuter Issue

Immigration policy as it regards the Mexican commuter has always generated discussion. Opponents to border-crossing passes have always cited the problems produced by the "commuter"; e.g., increased job competition for low-skilled employment, a depressing effect on wages, and the disrupting effect on union activities. Proposals to curtail this immigration have ranged from termination of the program to taxing employers for hiring commuters. ⁽⁸⁵⁾ Other suggestions have included a commuter ticket to be purchased by commuters crossing the border for employment in the United States, and strong local programs encouraging employers to give hiring preference to U.S. residents. ⁽⁸⁶⁾

Considering the labor force in Mexican border towns, any cutback in the commuter program must contend with the possibility of illegal immigration by those same workers. To strictly enforce any employment sanctions against commuters would be extremely difficult for fear of violating the suspected worker's civil rights. The local Texas Employment Commission office itself, fears this type of legal action brought against them. When asked

whether they requested proof of citizenship or residency for job placement services, TEC officials replied no. (87) Even when a work history shows an individual as never having worked in the United States, the Texas Employment Commission still does not refuse placement services. (88)

A major problem of presenting any counter proposal to the present commuter status is the limited understanding of the problem's magnitude along the border. The last study completed was in 1970 by North. (89) Without relevant information on the occupation and number of jobs commuters are employed in and their yearly work patterns, it becomes unrealistic to direct policy action. At this time, such information is not even available, although it could be easily collected by the Immigration and Naturalization Service. Moreover, given this information, the labor certification process becomes much more effective. For then, decisions are based to some degree on information on labor demands in the area, and the occupational information on the commuter.

The Issue of Illegal Migration

The problem of illegal aliens in the United States has existed for many years, yet no one knows the actual number of illegal aliens who cross annually into this country. The numbers available from the Immigration and Naturalization Service on illegal aliens only account for those apprehended. Overall, the number of apprehended illegal aliens has been growing at a tremendous rate since the termination of the Mexican Labor Program (Bracero Program) in 1964. (90)

Along the border, the problem of the illegal alien has been less pronounced. This has probably resulted from the area's scarce employment opportunities, the fear of detection by the Border Patrol, the region's lower wage scales, and the growth of large Spanish-speaking populations in major metropolitan cities. However, this is not to say that illegal aliens are not found in significant numbers along the border. In 1975, the number of apprehended aliens in the McAllen sector totaled 32,028. Most of those apprehended were Mexican males. Of this number, 8773 were employed at the time they were apprehended. The large percentage of those employed were found in agricultural activities and at wage levels of below \$2.50 per hour. (95) Table 14 depicts this information (on the next page).

Migration Probabilities

Given the long history of Mexican migration into the United States, Mexico's population projected to increase by 12 million in six years, the characteristics of a young and growing labor force, and the existing wage differentials for unskilled labor; it seems unlikely illegal migration into the United States from Mexico will diminish. (96)

Recent and relevant research on Mexican migration into the United States provides some interesting new findings for discussion. (97) In his study, Cornelius makes a distinction between two types of migrants, the target migrant and the "professional" migrant. (98) The target migrant relocates because of severe economic necessity precipitated by drought, premature frost, or some other temporary condition which severely reduces family income. (99) His migration

TABLE 14

EMPLOYMENT OF APPREHENDED ILLEGAL ALIENS BY
INDUSTRY AND WAGE LEVEL (McALLEN SECTOR)¹

	\$6.50	\$4.50-\$6.49	\$2.50-\$4.49	\$2.50	Total
HEAVY INDUSTRY	0	3	11	32	46
LIGHT INDUSTRY	2	15	42	947	1006
AGRICULTURE	1	5	22	6881	6909
CONSTRUCTION	1	0	14	134	149
SERVICE	1	2	14	646	663
TOTAL	5	25	103	8604	8773 ²

¹ Includes the counties of Starr, Cameron, Hidalgo, Willacy, Kleberg, Brooks, and Jim Wells.

² Represents 27% of the total apprehended, 32,028.

Source: Immigration and Naturalization Service, McAllen Office.
Deportable Aliens Located by Border Patrol, Reporting
Office McAllen Sector Consolidated, Fiscal Year 1975,
McAllen, Texas.

is of a short-term nature. The professional migrant, however, views migration as a feature of his family life, a way of making a living. ⁽¹⁰⁰⁾

Although Cornelius' research does not include numbers for each group, the majority of the professional migrants he interviewed had obtained legal entry papers. Because present statistics on apprehended illegal aliens identify the problem as being illegal migration, this suggests that target migrants outnumber professional migrants. It also implies that if the devaluation increases migration it will be the target migrants who are affected. Cornelius makes clear that most migration (from those communities studied to the United States), is temporary. The average stay is six to eight months, with most migrants leaving Mexico in March and returning in early December. ⁽¹⁰¹⁾

Cornelius also suggests that migrants appear to have preferred destinations. Poor migrants, without immigration papers, prefer jobs located in small towns or rural areas, because of the lower costs-of-living there. ⁽¹⁰²⁾ Agricultural workers find California more desirable than Texas because of its higher wages. ⁽¹⁰³⁾ If this hypothesis is true, it suggests a high degree of information about the States reaches Mexican communities, and illegal entrants are more "knowledgeable" than most writers give credit.

Policy Responses to the Illegal Immigration Issue

Any solution to the problem of illegal immigration must begin with revisions of the Immigration and Nationality Act of 1952. This Act made the importation and harboring of illegal aliens a felony. However, in bowing to special agricultural interests from

Texas, the Act also contains a section that came to be known as the "Texas proviso". This section states that employment and related services provided by employers, i.e., transportation, housing, medical aid, etc., does not constitute an illegal act of harboring an illegal alien; in effect, negating the intent of the Act.

As the number of apprehended aliens has grown since the termination of the Bracero program in 1964, the issue of illegal migration has received increasing attention. In 1972, a subcommittee of the Committee on the Judiciary of the U.S. House of Representatives held extensive public hearings on this subject. That year, a bill that proposed fines and jail terms for employers knowingly hiring illegal aliens was passed by the House, but not by the Senate. (104

In 1973, House Bill 982, another bill concerning the illegal alien was introduced to the House. This legislation proposed the following three-step procedure in dealing with the employer:

1. For a first violation, the U.S. attorney general is directed to serve a citation on the employer, stating that a violation has occurred, and that the employer has a period of time to clear the matter.
2. If said employer commits a subsequent violation within two years after receiving a citation, the Attorney General is directed to impose a fine of not more than \$500 for each alien located on the premises;
3. Following the imposition of a fine, an employer who commits an additional violation will be subject to a fine of \$1000 and a one-year imprisonment for each alien.

Again this bill was passed in the House, but not acted upon in the Senate.

Senators with strong agricultural interests in their homestates have worked hard to defeat passage of the bill. Most notable among them has been Senator J. Eastland from Mississippi who submitted a bill on the subject calling for mild fines for employers but no threat of imprisonment.

Other bills aimed at the illegal immigration issue have not been as stringent on employers as House Bill 982 proposed. Alternative proposals have suggested work identification cards for workers making possible use of the Social Security Administration (SSA); the objective being that while applying for Social Security cards, applicants could be easily identified. This amendment would grant the SSA the authority to require social security applicants to furnish evidence of their citizenship, alien status, and true identity.

An unusual coalition between Chicano groups and the agriculture industry has arisen to fight the passage of these proposals. Chicano groups have stated their reservation to these proposals; their primary concern involving the possibility for employers to use the legislation as a cover for discriminatory hiring practices.

The agriculture industry has argued that without illegal aliens, some agricultural activities cannot be completed. Industry officials claim that in this case the illegal alien displaces no one, but rather plays an important productive role.

Proponents for strong illegal alien legislation contend that the majority of illegal aliens are not found in agriculture,

but scattered through a diverse mixture of job occupations. They claim, in fact, that illegal aliens take jobs at lower wages displacing many U.S. workers; perhaps not in agriculture, but in the construction, service, and heavy industries. Thus, they say that to make attempts at achieving full employment goals without attempting to solve the problem of the illegal alien is unrealistic.

Another proposal for dealing with the illegal alien has been suggested by the Immigration and Naturalization Service (INS). INS contends that by substantially increasing its operating budget, illegal immigration could be reduced. Increased employment and detainment facilities for the illegal entrant would make it more difficult for the illegal entrant to cross the border. At present funding levels, the INS claims this cannot be done.

An additional alternative for dealing with the illegal alien is provided by the Hall Bill, presently pending in the Texas State legislature. The Hall Bill places tighter controls on farm labor contractors, rather than on employers of illegal aliens. Farm labor contractors act as the negotiators in recruiting farm labor crews for agricultural growers. Although these contractors are required to be licensed by the Texas Bureau of Labor and Standards, many are not. It is suspected that these contractors recruit a large number of illegal aliens for agricultural work.⁽¹⁰⁵⁾ The Hall Bill authorizes the Texas Bureau of Labor and Standards to impose penalties on unlicensed labor contractors of up to \$1000 per worker. Supporters of the legislation feel that by cracking down on farm labor contractors the illegal alien problem will diminish.⁽¹⁰⁶⁾

CRITICISMS OF POLICY RESPONSES TO THE PROBLEM OF THE ILLEGAL ALIEN

A major criticism of present approaches to the illegal alien problem concerns policymakers' definition of the problem. All proposals considered here implicitly assume that the illegal alien problem can be settled within the United States. Hence, their proposals suggest actions limited to within the United States.

At this time, policy makers have not proposed direct technical or financial aid to Mexico as a means of solving the problem of the illegal alien within the United States. Instead, policymakers direct legislation at the employers of illegal aliens hoping that in the short-term, the legal sanctions will reduce demand for illegal alien labor, and in the long-run, bring about attitudinal changes of Mexican migrants by increasing the difficulty of finding employment.

There will be difficulties in enforcing any legislation that attempts to deal with the alien problem. For one, the employers of illegal aliens may be sole proprietors, partnerships, or corporations. The difficulty of prosecuting corporate bodies limits the effectiveness of the legislation, especially since the fear of imprisonment is negated.

In addition, the legislation does increase the possibility of discriminatory hiring practices. Although proponents argue that work identification cards would eliminate such actions, this does not prevent individual employers from denying employment to Spanish-speaking Americans under the cover of protecting themselves from legal actions.

Summary

In this chapter, three issues raised by the devaluation's impact are examined: post-devaluation development policies, U.S. immigration policy as it concerns the commuter, and illegal immigration into the United States from Mexico.

The analysis briefly reviews the area's economic history and recent rapid growth, as explained in chapter two, and examines how the quick reversal of these growth trends caused by the devaluation may depress the region's economic development. This section on the development issue included a short examination of past development proposals for the area and strategies presently employed by EDA and other federal agencies.

The chapter next examined the concern raised by the devaluation about increased numbers of commuters entering U.S. border labor markets. Along the border, commuters present more problems to the resident labor force because of their legal status. It was found that data on commuters were not sufficient to make policy suggestions, although border authorities (INS) could collect the information quite easily. This information would make the labor certification process, the process by which legal aliens are admitted, more effective.

Finally, this chapter examines the issue of illegal migration, a probability increased by the devaluation.

For that reason, several studies dealing with the subject were reviewed. In his writings, Cornelius suggests that those most affected by the devaluation will be target migrants, individuals who would not necessarily migrate, yet do when severe economic conditions make them. In addition, he states that migrants have preferred destinations within the United States determined by their work skills and wage scales. South Texas, because of its low wages and few non-agricultural employment opportunities provides few incentives to migrants. The chapter concludes with a discussion of current policy proposals aimed at curtailing immigration and criticisms of those policies' limitations. Although the immigration problem is complex and no one solution appears likely, the probable answer lies in between creating employment opportunities for migrants in Mexico and minimizing the adverse effects of illegal immigration in particular industries and occupations. In chapter 7, we consider a community-controlled development strategy that attempts to create a cohesive community in which employers show hiring preferences to fellow community members instead of illegal migrants and commuters.

Chapter 6

THE RATIONALE BEHIND DEVELOPMENT ASSISTANCE

In this chapter, the rationale for federal investment in lagging regions is discussed. The devaluation's impact on the area makes such an analysis necessary because its adverse effects on business have been depressing to the region's economic growth. Development strategies presently in use contain limitations in their potential for developing the area, and in light of the devaluation it is even more important to understand the rationale behind these theories and their inadequacies.

In the analysis of the rationale behind federal investment in South Texas, the study first centers on the Economic Development Administration (EDA) and its public works strategy for development. A brief history of the agency's legal status is included, as well as several examples of the type of loans and grants it has previously approved within the lower Rio Grande Development region. Following these examples, the analysis reviews the arguments for and against the present theories of federal assistance to depressed areas: the theory of planned adjustment and the theory of national demand. The analysis then proceeds to a discussion of several policy strategies that have developed from these general theories: the growth center strategy and human resource development strategy. The difficulties inherent in the employment of the

above approaches concludes the discussion.

The Economic Development Administration (EDA)

Under the Public Works and Economic Development Act of 1965 and its amended form since then, the Economic Development Administration was established. EDA's expressed function has been to assist in the development of distressed regions of the United States. EDA assistance is designed to aid eligible organizations, such as redevelopment areas (counties, labor areas, and cities of 250,000), economic development districts (multi-county organizations with at least two distressed areas and a redevelopment center which are centers of economic activity), and economic development regions (multi-state regions with joint federal-state commissions carrying out long-range economic planning). Eligibility for these geographic areas is determined by both high unemployment rates over extended periods of time, and low median family incomes relative to the national median income average.

The Public Works Act of 1965 authorized the Economic Development Administration to provide grants and loans for the following purposes:

1. to acquire, develop, and make improvements in land for public works, public service, or development facilities; and to acquire, contract, rehabilitate, alter, expand, or improve such facilities, including related machinery and equipment;
2. to acquire technical assistance, research, and information that includes project planning and feasibility studies, management, and operational

assistance and studies evaluating the needs of and development potential for the economic growth of each area.

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A few examples of the type of loans and grants approved within the Lower Rio Grande Development District are:

- a. a \$763,200 grant to the Cameron County Water District for the rehabilitation of a water facility;
- b. a \$618,000 grant to the city of Weslaco for the construction of an industrial park;
- c. a \$420,000 grant and \$252,000 loan to the city of McAllen for the construction of trade zone facilities;
- d. a \$104,800 grant to the Raymondville Fire Station for the construction of a community building. 109

It is this type of financial assistance that raises questions concerning the effectiveness and appropriateness of this strategy in South Texas. This chapter takes up that discussion.

Public Works projects funded by the Economic Development Administration are coordinated by the Lower Rio Grande Development Council. As required by legislation, an Overall Economic Development Program (OEDP) is first designed. This document analyzes each district's development problems, proposes actions, and lists project priorities such as constructing industrial parks, oil docks, and a water storage reservoir in McAllen. At EDA's discretion, grants and business loans are provided to those projects having goals consistent with the district's overall economic development program. There is a rationale behind EDA's involvement and therefore, the underlying assumptions behind this planned development strategy

deserve mention.

Development Theories

There are two extreme viewpoints on the proper strategy for national development: the national demand theory and the planned adjustment theory. In addition to these two theories, as Cameron points out, there are a number of options open between these two extreme theories that could form alternative choices for national involvement.¹¹⁰

It becomes especially important to take up a discussion of the rationale behind federal involvement in development matters because of the impact of devaluation. Such a discussion helps to point out the implicit assumptions behind the arguments both for and against federal aid to South Texas, arguments especially important to understand in light of new demands for federal assistance to South Texas businesses suffering from the devaluation's effects. Because the devaluation has created a depressing effect on the South Texas border economy, it is relevant to see how conflicting sides would explain the rationale for assisting the area during the adjustment period. Therefore, each theory will be defined, policy strategies suggested by each theory mentioned, and the limitations of these policy strategies discussed.

National Demand Theory

The theory of national demand argues that competitive market forces will create an optimal spatial distribution of economic activity. When any area shows symptoms of recession, the theory claims, these economic signs should be interpreted as a warning of the region's lessening importance to the nation. Moreover, according to the theory, local employment and low incomes should then attract new investors eager to take advantage of the profit opportunities offered by low-cost factors of production. If new investment fails to occur because the region has additional competitive disadvantages, the unemployed would migrate to areas of greater opportunities.¹¹¹ This thinking is carried to more sophisticated levels during a private firm's location-decision process. One analytical approach, defined by the theory of comparative cost, is taken up below.

Very simply, the theory of comparative cost states that industry will locate in a particular region, minimizing costs, after examining the differences in operational costs arising from price differences in labor, fuel, and other items associated with a particular geographic region.

For example, some firms locate in a particular region because their raw material inputs are found there. Some firms locate in a particular area because the cost of distributing their product is the most important aspect of deciding upon a site. Economists label such industries as market-oriented.

The third set of locational preferences consists of industries who select location on the basis of the other industries also located there. Economists describe this situation as economies of agglomeration. Economies of agglomeration are realized when one firm locates in the proximity of other firms that provide the locating firm with expenditure or cost savings.

The rationale behind EDA's investment in lagging regions is based on the assumption that these regions contain potential sites for successful enterprises. The strategy assumes that some firms face diseconomies of scale when located in congested urban areas and that operational costs could be reduced by locating in an economically depressed region. But these assumptions do not take into consideration some other important factors.

As Hansen points out:

Whatever advantages rural areas may have in terms of a stable labor force that is relatively cheap and plentiful, of adequate and relatively cheap land and of easy access to work and recreational areas, they still have a host of disadvantages to overcome. The cheap land and low tax rates may be more than offset by low levels of services. There are relatively few business contacts with other producers or auxiliary services. Labor may be plentiful, but it may prove costly to adapt the relatively untrained labor force to the firm's needs. The local market will probably not be significant and frequently firms find it advantageous to locate near competitors.¹¹²

The South Texas region exhibits many of the characteristics that Hansen points out. In addition, these problems are compounded by the predominant Chicano population who bring to the situation the added difficulties associated with a language

barrier. In this situation, those who agree with the theory of national demand would say that the area's type of economy is to be expected.

Planned Adjustment Theory

A conflicting national development theory that argues for federal assistance to lagging areas is the theory of planned adjustment. Planned adjustment theorists argue that market forces do not and cannot be depended upon to create an optimal spatial distribution of economic activity. Lagging regions, according to planned adjustment theorists, suffer not only from misutilization of funds and resources, but also because entrepreneurs and outside investors are unaware of the favorable opportunities that may exist within these regions.¹¹³ These theorists additionally claim that such deficiencies can be overcome by planning and investment in the lagging regions. Some key assumptions produce this thinking: lagging areas cannot overcome their structural difficulties because of capital shortages caused by the tendency of capital to flow into metropolitan areas, with their increased economic activity. Potential profitability in the depressed areas does exist for certain types of firms. The theory assumes that some firms might be able to reduce their operational costs by moving away from the diseconomies of scale created in congested metropolitan areas. Another assumption is that some "public purpose" is accomplished, e.g., maintaining a population in a

declining area.¹¹⁴

Although such broadbased assumptions underlie federal involvement in the development process, EDA is distinguished from other federal agencies by its efforts to generate an economic development process in specific areas of the country, thus defining its spatial focus in advance.

EDA's job creation strategy deserves some criticism as to its applicability in South Texas and the border area. Little empirical evidence exists to argue against the strategy's success in South Texas. On the contrary, the Lower Rio Grande Development Council's report of the 1976 Overall Economic Development Plan provides little evidence to prove the program is not cost efficient. (The 1976 Overall Economic Development Plan presented by the Lower Rio Grande Development Council reported total investment by EDA and local sources at approximately \$26.5 million for the region during 1967-76. This investment reportedly generated 14,278 primary jobs. At this number, the cost of investment per job is \$1,849. However, it must be remembered that the employment estimates are derived by local project sponsors.)¹¹⁵

Because of the lack of empirical data for the area, it is necessary to evaluate EDA public works programs on the basis of the appropriateness of its assumptions in rural areas. In this regard, the theory can be evaluated from two alternative policy strategies: growth center strategy and investment in human capital strategy.

The growth center approach represents an attempt to encourage local production and expansion in rapidly growing areas so as to spread growth to other parts of the region. As such the policy becomes one of spatial selectivity, with prime consideration given to growth areas for the purpose of large-scale public investment. This theory is an extension of the theory of planned adjustment, the major differences being that growth center proponents claim explicit criteria for such regions.

Berry claims the population for viable growth is 50,000 to 250,000. Hansen sees medium-sized cities of 250,000 to 750,000 as more ideally suited, selected on the basis of commuting and migration data. ⁽¹¹⁶⁾

The political implications of such a strategy must be considered. Although the growth center strategy assumes migration will take place from rural to urban areas, it leaves unanswered the question of what effects such migration could have on smaller rural areas. Assuming the more mobile population groups would migrate, i.e., the young and healthy, it fails to provide an explanation for what happens to non-migrating individuals. Secondly, the theory addresses neither the appropriate rate of migration and its possible controls nor the serious problems raised by a too rapid growth.

In addition, the growth center strategy does not adequately address the cost of migration both to the individual and to the nation. For the individual, significant private costs

will be incurred from transportation expenses to the relocation site and from income loss while moving. For the nation, opportunity costs from underutilized land in the sending area are incurred, as well as costs from congestion, replacement and expansion in the receiving areas.

Politically, it seems inconceivable elected officials would agree to a large number of their constituents migrating from their district. And, if stringent criteria were applied, such as Berry and Hansen propose, the number of eligible growth centers becomes limited. Such action might give a bias to certain regions of the country. For those located in stagnant or declining areas, the strategy becomes politically unattractive.

In South Texas, the growth center strategy runs into difficulty because no growth region is clearly defined. Secondly, since the growth center theory operates under the same assumptions, the appropriateness of those assumptions must be examined in order to determine if there are operating cost advantages. The region does contain cheap labor, inexpensive land, and an unemployed labor force. But, again, the disadvantages are also numerous; poor transportation routes, cultural and language barriers, and limited water resources.

Finally, with the implementation of a growth center, the incentives of migration would be as great for Mexican nationals to move into the area as for rural migrants.

The question that remains is which firms will take advantage of these incentives and relocate in rural areas.

Hansen examines the urban-to-rural shift of industry:

Those industries that have tended to leave metropolitan areas have been characterized by relative stagnation or decline; they frequently seek cheap labor in areas of surplus agricultural population. (117)

Other types of industry attracted to rural areas are typically textiles, food and food processing, low-fashion apparel, wood products, and furniture. In general, industries attracted to rural areas seem to usually be low-wage, labor-intensive industries. (118) In South Texas, this is evidenced by manufacturers' participating in the Mexican Border Industrial Program.

In assessing South Texas' development potential from the viewpoint of location, it can be shown that the area has few primary resources except those related to the production of agricultural goods. Wages are low, but generally the skills of the labor force are those suited to the agricultural industry. Hence, training can become a high short-term cost for new industry relative to other areas.

Market-oriented firms have some incentives for locating in South Texas because of its proximity to the Mexican market. However, other trade-offs these firms must take into account are the area population's low incomes, the small local market, and the uncertainty of Mexico's import policy.

It becomes apparent that migration from Mexico and the development of South Texas border area cannot be disassociated.

Present rural development strategies can also be evaluated from the theory of investment in human resources, e.g., education and training in assisting individuals to improve their status, income, and productivity. In economic development, private industry locates these trained individuals and employs them. Benefits accrue to the individual, the firm, and to society as a whole, in the form of private income, profits, and taxes.

However, difficulties are present in implementing human resource development programs in rural areas. For one education and training increases the chances of migration from rural areas to other areas with greater employment opportunities. Not only are the trained individuals lost, but with them, the scarce resources used in their training. The sequencing of these human capital investments also poses a problem.

Three potential difficulties are postulated. As stated earlier, a situation could arise in which a training and education program would be completed before employment opportunities become available; thus increasing the probability of migration by the newly trained workers. Second, an industry could be attracted to an area before a work force matched to its needs was created. If anything, EDA's investment in

rural areas has shown the inadequacies of education programs and the problems of the labor force adapting its skills to certain industries. Third, there is a need to maintain a trained labor force with an alternative, temporary employment while an industry is considering relocation. None of these situations are ideal.

The "start-up" industry training concept is one proposed solution to the problem stated above. Seen as a better way to match workers and jobs, the start-up concept attempts to "leapfrog" the industrial development process by upgrading local work forces in order to attract higher-wage industry to an area.⁽¹¹⁹⁾ This concept attempts to increase the wages of low-income workers and attack some of the time lag and sequencing difficulties in training and locating industry by simultaneously training workers, in advance, for specific jobs.

An analysis of these type of programs in South Carolina, North Carolina, Virginia, and Alabama found that although the concept had potential, the results depended a great deal on the way the projects were operated. Those projects examined had been more concerned with the interests of the relocating firms, than with the marginal impacts in upgrading work forces.⁽¹²⁰⁾

Summary

The devaluation's depressing impact on the economic growth of South Texas makes necessary a re-examination of the Economic Development Administration's development assistance presently available to the area. In examining the rationale behind federal investment in depressed regions, particularly South Texas, this analysis has shown the arguments both for and against federal involvement in the area. We examined these conflicting viewpoints as expressed in the theories of planned adjustment and national demand. Particular attention was given to the policy strategies these theories have developed: the growth-center strategy and the human resource development strategy. These policy strategies have limitations, as was shown by reviewing the subject literature and the characteristics of the area.

The area has few primary inputs attractive to relocating industrial firms. For market-oriented firms, the primary market of low-income workers is small, while the secondary markets in Mexico are tenuous. Investment in South Texas growth areas, with emphasis on rural-to-urban migration, does not take into account the proximity of Mexico and rural migration from that country.

Investment in human resources will be further hampered by the devaluation's effects of increased unemployment and operating difficulties for retail establishments located

there. Such investment must additionally confront the problems in rural areas of time lags for locating industry and their precipitation of emigration. In South Texas, the problems of a language barrier and different cultural attitudes still exist.

The devaluation increases the area's need for effective development strategies. While EDA's present development strategy in the area deserves criticism, there is a role for an agency of its resources. In chapter 7, alternative strategies are presented dealing with the agriculture industry, local governments, and rural organizations. EDA assistance in these efforts is discussed.

CHAPTER SEVEN

ALTERNATIVE DEVELOPMENT STRATEGIES FOR SOUTH TEXAS

There is a basic theme throughout this chapter and this theme should be made clear. Long-term economic development in depressed rural areas cannot take place successfully unless some organization or movement generates pressure on political bodies by making vocal the problems of rural areas. Although McAllen and Brownsville are classified as standard metropolitan statistical areas, the region is primarily a rural area and urban development policies would be inappropriately matched to its needs. Therefore, the development strategies presented here will take into consideration the rural characteristics of the region. They are not presented solely for their possible impact in creating employment and increasing incomes, but also for their potential political impact on important policy issues concerning the area.

The discussion in chapter 6 pointed out the difficulties with present development strategies. As was also mentioned, the inadequacies of these development strategies is especially critical in light of the devaluation's depressing effect on the economy of South Texas. Therefore, it seems obvious that new development strategies must be developed in order to deal not only with the problems previously unsolved by present strategies, but also to ease the additional

depressing impact of the devaluation. For this reason, major consideration is given to the role three important elements of the economy, the agriculture industry, local governments, and rural organizations, might play in the area's economic development.

This chapter will briefly outline the possibilities of using the region's own resources as opposed to the previously attempted federal assistance. Even though a fully elaborated development program statement was outside the scope of the thesis, this short description of alternative strategies indicates possible directions for the future of the region.

To begin, the study examined the South Texas agriculture industry. A brief explanation is given of the modernization that has occurred in the industry in recent years and its effect on the rural labor force. Following this background information, the chapter explores the possibility of rationalizing the work done by the agriculture industry while also discussing the potential problems and benefits of such a move. Considered briefly is the role EDA and other federal agencies can play by providing technical assistance and research funding for the agriculture industry.

Another alternative source for development assistance is local government. In this section, the two resources for promoting an area's economic development that local governments possess are discussed. The study first centers on

the local government's role in public employment programs by explaining the legislative background of past efforts and their objectives. Criticism and support of these efforts is included; the problems specifically encountered by public employment efforts are discussed. Second, the government's ability to act as a consumer of products and services produced locally by developing enterprises and to thereby provide financial support for such enterprises, is also mentioned. Finally, the chapter examines two types of rural organizations that offer the potential for initiating significant changes in the community: community development corporations and cooperatives. The chapter concludes with the benefits these organizations could create for their community; but their potential problems are also outlined.

Agriculture Industry

The agriculture industry in South Texas, like the agriculture industry in the nation, has undergone significant changes in the last twenty years. For one, agricultural output has risen moderately with substitution of mechanized equipment, fertilizers, and scientific farm management for a portion of the labor force. Regions that once supported large agricultural populations have suffered as a result of these changes. Different activities demanding different skills reduced the demand for rural workers trained in more labor-intensive methods. Change did create demand for new skills, but the lack of training and education, worker attitudes, and the urban location of some jobs prevented all workers from benefiting. Instead, with the increasing substitution of capital for labor, the maintenance of smaller rural labor forces became the trend. (121)

This section examines the possibility of rationalizing seasonal work in the agriculture industry; a systematic procedure in which work activities are identified and distributed over time in order to maintain a regular work force with minimal employee turnover, for a sustained period of time. The procedure might include training employees for a mix of activities and responsibilities in order to increase the length of employment. It might also include improving the efficiency of operating methods within the industry, i.e., harvesting, crop selection, marketing, etc. The value of such a procedure will be examined.

As reported in Table 3, a large percentage of the employed agricultural labor force is seasonal. The agricultural

industry has seldom seen the need to employ a permanent labor force. This belief resulted because activities requiring large amounts of labor are obviously seasonal and coincide with periods of land preparation, planting, and harvesting. Additionally, because of the large labor force in the area, agri-business has usually negotiated with the farm labor contractors who provide farm labor crews. Unfortunately, this system of employment provides few incentives to continue working for one employer, since the farmworker is neither paid directly by the employer nor assured of stable employment. Short-term hiring has fueled migration from the area, and in recent years, the agriculture industry itself has incurred substantial losses because of its unstable work force.

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Structural roadblocks obstructing the formation of regular work forces are inherent in the Valley's agriculture industry. For example, heavy rains often do not allow harvesting operations to take place because trucks cannot operate in the muddy fields.⁽¹²³⁾ In two of the last three years, the Valley's citrus industry experienced such slowdowns which resulted both in fruit spoilage and delivery delays.⁽¹²⁴⁾ Financial losses occurred not only for the industry, but for the unemployed farmworkers as well.

Several proposed changes could benefit both farmworkers and the industry. All however, are dependent on the industry's attempt to lengthen the worker's term of employment, which,

in recent years has decreased. (125)

Proposed changes are as follows:

1. If industry could maintain a regular payrolled work force, migrant flows from the area might be stabilized, thereby resulting in longer work periods, higher yearly incomes, and extended periods of schooling for the workers' children.
2. Industry might institute ratings of workers' performances; by tying performance to a wage scale, workers could proceed in varying degrees of work effort knowing that increased output would be rewarded. Industry would benefit because jobs within the industry would become more attractive. In addition, higher wages might increase the availability of a resident work force.
3. To lengthen employment periods, the acreage in labor-intensive crops could be increased. Lengthening land preparation, planting, and harvesting periods, and/or training workers to perform a wider range of farming activities could also achieve a longer term of employment.
4. Structural problems must also be examined and corrected in the industry. Widening field roads, improving their grade, and modernizing farm implements are only a few suggestions that may make possible avoiding costly periods of inactivity.

These proposed actions are based upon the feelings of some industry officials and recent research findings conducted in this area. Some general assumptions these people agree upon are:

1. Farm labor is underutilized and mismanaged.
2. Migrant farmworkers would prefer a less nomadic lifestyle if employment were available, and there were less competition from alien labor.
3. Farm labor contractors are not needed to recruit a farm labor force. Industry can do it more efficiently.
4. Operational and structural obstacles exist in the agricultural industry.

If there is a major role the Economic Development Administration and Department of Agriculture can play in development, it is certainly within the agriculture industry. For one, both can finance research into new methods of labor-intensive farming, crop selection, and determining the proper scale for different farming activities, as well as providing simple consumer information. Secondly, EDA can finance technical assistance programs. These funds can be used to assist small farmers, cooperatives, and community development groups in marketing, accounting, and other problems related to farming activities. And finally, EDA can provide low-interest business loans to partially finance machinery or infrastructure within the industry, so as to allow for more labor-intensive activities.

LOCAL GOVERNMENTS

Local governments, both at the city and county level, offer many potential contributions to the development efforts. Local governments are eligible for federal grants that could be used for developmental purposes. In addition, government consumes products and services while providing services to the area. During the process, government creates market and employment opportunities. In this section, these two resources that local governments possess are discussed. Attention is first focused on Public Employment Programs, followed by a discussion

on the use of government markets by local organizations in developing enterprises.

Public Employment Programs

In the early 1960's, only two public institutions existed for administration of employment programs at the local level; the public schools and the federally funded, state-operated, employment services.⁽¹²⁶⁾ A notable change occurred when additional services were provided for those individuals who found it difficult to compete in the labor market. Some of the legislative acts creating these public employment and training programs were:

1. In 1962, the Manpower Development and Training Act was passed. The Act focused on providing training for experienced workers who were unemployed because of changes in technology or slowdowns in the economy.
2. Noting the need for public employment programs targeted at the unskilled and disadvantaged, the Economic Opportunity Act was passed in 1964. Programs created under this Act were: the Neighborhood Youth Corps and Job Corps, both aimed at employing disadvantaged young people; New Careers, devised for training poor people as paraprofessionals in health, education, and public safety; the Work Incentive Program (WIN), an effort to get welfare recipients into the labor force; and others.
3. In 1971, Congress passed the Emergency Employment Act, which created the Public Employment Program (PEP). Unlike other employment programs, PEP enrollees were not typically disadvantaged workers, despite the fact that the original legislation specified employing disadvantaged workers and minorities.
4. In 1973, the Comprehensive Employment and Training Act (CETA) led employment into a phase of development. Thus far, CETA has attempted to combine the goals of reducing cyclical and structural employment as well as improving the earnings potential of low skilled workers.

Few programs have changed objectives and functions as rapidly as public service employment programs. Such changes resulted from program inadequacies, operational difficulties, and program criticisms. General criticism will now be discussed.

A major argument made against public employment programs has been that state and local governments have a limited capacity to absorb or supervise extra workers. Thus, local control over employment slots could provide a means to displace regular employees. Displacement could occur through local governments failing to replace regular personnel or finance regular jobs during periods of fiscal need, as in fact was reported to be the case during CETA and PEP evaluations. ⁽²⁷⁾

Because of this, critics of public service employment argue the program's operation should be federally controlled, specifically targeted to the disadvantaged, or restricted in its uses. ⁽²⁸⁾ Proponents of the program claim that to place restrictions on the program would reduce creative attempts to implement the program, while federal control would increase the start-up time of ventures. Instead, they claim local control will allow officials to establish their priorities and thus make the program effective. ⁽²⁹⁾

A third criticism voiced is the potential of public service employment for inflationary impact on local economies. Opponents argue the program participants produce few services of value, while increasing demand for goods and services with their increased purchasing power. These critics implicitly

assume that the jobs created by the program are of make-work variety with few skills required and little output expected. (130) Proponents argue that public employment is not a case of make-work jobs, but can provide valuable services to communities that lack the funds to finance needed projects. In addition, they state that many objectives can be accomplished through this temporary employment, such as improving worker attitudes and providing relevant work experience and training.

These are a few of the general questions that spark discussion about the use of public employment funds. Below, an evaluation of the Public Employment Program in South Texas is discussed.

Public Employment in South Texas

In 1972, an assessment of the first year of operation of the Emergency Employment Act of 1971 in Texas was performed and later submitted as a report to the National Manpower Task Force. (131) In the report is found a particular evaluation of the Public Employment Program in South Texas. Although some of the problems raised were related to the objectives of PEP, some general issues raised will also concern the operation of CETA, i.e., the minimum wage question, the shortage of funds in rural areas, and the program's orientation.

The question of minimum wage created a problem with many of the PEP participants and employing agents in South Texas. Objections were raised by these groups because PEP participants were limited to those occupations in which the prevailing wage

as the federal minimum wage (\$1.60 per hour at the time);⁽¹³²⁾
Subsequently, new job titles were created so that those PEP participants,
employed with permanent workers who were paid less than the federal
minimum wage could remain. Hard feelings arose around this issue as
employing agents viewed PEP as becoming a wedge to increase the
wages of other workers.⁽¹³³⁾

Another problem pointed out was the lack of funds to make the
program attractive. As Briggs wrote in the evaluation:

Making the Public Employment Program (PEP) more
responsive in Texas is hampered by the inflexible
federal restrictions and by the paltry sum that
makes PEP unattractive to many local units of
government (e.g., 77 rural counties did not want
PEP funds [in Texas]). As it is, the paltry sums
available for rural employment needs in Texas are
too small to be meaningful. PEP is spread too thin
over the vast area that is rural Texas.¹³⁴

Another drawback with the programs in South Texas was the local
direction and orientation given to the program as Briggs points out again:

Programs oriented to the migrant farmworker have not
worked. A problem is that the operators of (PEP)
believe that migrant farmworkers do not have any skills
to offer the labor market. Hence, PEP migrant participants will
be assigned as helpers to work with skilled craftsmen. No
specific training is involved. Rather it is hoped that the
helpers will pick up enough skill knowledge while working
on the job to qualify for a more permanent job in subsequent
years.⁽¹³⁵⁾

These problems describe the difficulty of using available program
funds in an effective manner. In addition to these problems, the small
amount of political power that the area has relative to urban areas
and the strong opposition to change held by local officials, make it even
more difficult to implement programs effectively. Nevertheless, the need for
public employment programs still remain.

Briefly, there are important uses for public employment programs in rural areas. Most importantly, the program guarantees a means of providing employment in rural areas. Used selectively, the program additionally serves as an organizing tool for community groups, a training mechanism for local government officials, and a method of providing much-needed services, (health and nutritional counseling, housing rehab, day-care services, etc.). Moreover by reducing payroll expenditures, it offers private and non-profit organizations, such as community development corporations and cooperatives, additional working capital. In a start-up situation, this subsidy could be crucial for it reduces the period of achieving a breakeven point, the point in time when business costs equal revenue.

Local Government Revenues.

As mentioned in the introduction to the chapter, local governments consume many products and services from within the area. The expenditures of financial resources for these services are substantial. In McAllen, the total operating budget excluding bond retirement and capital investment was \$5.2 million for the 1975 fiscal year. (135) The amount of these funds suggests the strategy of drawing local governments into contracts with community organizations for the provision of services. The concept is not an original one; but the lessons learned from past efforts, especially the Small Business Administration 8 (a) program should be noted.

This program assists minority and disadvantaged persons to obtain non-competitive negotiated contracts from various federal agencies. How-

ever, a recent program evaluation reported that SBA's success in helping disadvantaged firms to become self-sufficient and competitive was minimal. (137)

The two important reasons cited were:

1. Procurement contracts were made to firms who had little chance of ever being able to compete in an unprotected market.
2. Procurement contracts were awarded without assurance of other types of financial or management assistance.

Some of these program shortcomings can be minimized by coordinating efforts with other technical assistance programs, such as the Small Business Administration 406 program, Title III of the Public Works Act, and OMBE Local Business Development Organizations.

RURAL ORGANIZATIONS

A major problem of low-income groups, agricultural workers, and Chicanos in South Texas has been their inability to generate significant political pressure to alter certain public policies. This weakness has produced certain interest groups who attempt to control local policies. In South Texas, agriculture and ranching groups have dominated policy decisions especially in regard to the commuter and illegal alien issues.

In this section, two organizations that offer the potential to initiate significant changes in public policy with respect to agriculture, economic development, education, employment, and welfare are presented. The two are community development corporations and cooperatives.

Community Development Corporations (CDCs)

The objectives of Community Development Corporations (CDCs) are

generally stated as that of establishing institutions that allow the workers in the community to revitalize the economic, social, and political life of the area. The structure of the CDC's can be on a profit or non-profit status. There are advantages and disadvantages to each model with respect to tax structures, political involvement, and the use of profits, however both have similar objectives and functions.

Though CDC's have a range of economic uses such as developing income-producing business firms, upgrading the labor force by providing training and educational opportunities, increasing the possibilities of better housing, and delivering a higher level of human services, it can also form the basis for initiating political activity and change. This non-economic function is an important aspect of this type of community action. As the community begins to examine the policies that have influenced its development, their actions become more than an economic undertaking; the CDC becomes the base of political activity.

A major problem faced by community development efforts has been the lack of equity capital available to these groups for the purpose of initiating local enterprises. Initially, federal funds from the Office of Economic Opportunity (OEO) provided financing for many ventures. In recent years, beginning with the demise of OEO and influenced by the disappointing results of some community development efforts, government support for the concept has waned.

At a time when resources are declining, community development advocates claim project selection criteria become more crucial than before in sustaining such efforts. Although it is generally conceded that capital-intensive industries are desired in the long-run, most community development

project selections are not faced with that choice because of scarce capital resources. But project selection for CDC involves many other factors; the type of product or service, the scale of activity, the product's particular market (export vs. local) and labor force mix, etc. These considerations involve important trade-offs, and to a large extent determine the amount of community support the project will have. Thus, the analysis and packaging of the enterprise have a great influence on the enterprise succeeding.

There are many benefits to be found in a community planned development strategy. For one, there are economic benefits, such as the training and educational opportunities provided by the activities of the enterprise. More important, however, are the non-economic advantages that will have significant long-run beneficial implications. These could be the political base established by the development actions or it might be reflected in the attention brought to rural problems, such as the lack of health and welfare services, educational programs and unfair business practices. This political base could generate pressures for improving these services. And finally, it should not be discounted that some of the enterprises established could be profitable, forming the basis for a long-term economic development effort.

COOPERATIVES

Another organization that has proved successful in representing groups while at the same time providing particular services to its members is the cooperative. In many ways, cooperatives operate much like a business firm. However, there are definite distinctions between the two.

One, cooperatives are owned by the entire membership, unlike stock ownership plans, proprietorships, or partnerships. Two, cooperatives are not profit-motivated, rather all revenues that the cooperative brings in, above costs, are returned to members in proportion to what that member buys. This refund allows the coop member to save on many products or services provided by the cooperative.

A third difference is that cooperative membership is voluntary. The cooperative organization's primary purpose is to help members realize higher incomes by providing a product or service more efficiently, dependably, at a lower cost, and at a higher quality than those provided elsewhere.

Cooperative objectives are much like those espoused by advocates of community economic development. For example, while community development advocates argue for community control through local ownership of enterprises, cooperative activities imply that the enterprises around the area are not meeting the wants and preferences of the community at a reasonable cost. Furthermore, the service provided by these enterprises can be duplicated by the cooperative membership.

A significant part of the history of the cooperative movement in the rural United States reaches back to attempts during the late 1930's and early 1940's to establish cooperatives in rural areas by the Farm Security

Administration. These past attempts faced opposition from a large number of groups, such as the U.S.D.A. extension service, state extension services, state land agricultural colleges, county agents, private farm machinery and supply companies, large southern corporations, established cooperatives, and special interest groups representing agriculture industry.⁽¹³⁸⁾ These groups considered rural cooperatives threats to their economic and political power.⁽¹³⁹⁾

What Cooperatives Offer

Cooperatives offer community groups an organization with the potential to influence policy as it concerns the issue of rural poverty. Cooperatives provide activities that may increase members' incomes, stimulate their participation in political affairs, and allow the members to acquire many skills and work experience in management, marketing, and other activities. Hence, cooperative organizations, like CDCs, begin to increase the employment options of the rural poor.

Problems Faced by Cooperatives

Many of the problems that plague community development corporations also trouble cooperatives. Little equity capital, low credit supplies, and few management and marketing skills still pose critical problems to the success of cooperative operations. Some government programs that could be helpful in alleviating some of these problems have already been discussed; public employment programs, government contracts, and technical assistance from a number of organizations like the Small Business Administration the Office of Minority Business Enterprise, and the Economic Development Administration.

Summary

In this chapter, alternative development strategies have been discussed and their rationale supplied. Particular attention has been paid to the role the agriculture industry, local governments, and community groups might play.

The agriculture industry in recent years has incurred financial losses due to poor weather, that often reduced field activity, and an unstable labor force. This chapter presents the rationale for industry and federal investment in structural and operational improvements in the agriculture industry. The case is made that by training the labor force for a mix of activities, lengthening periods of employment, and introducing measures of productivity; agricultural jobs might become more attractive to the worker. Hence, this might increase the chance for extended periods of employment.

Also pointed out is the need for investment in an infrastructure related to agricultural processes and work equipment. This investment might make harvesting, land preparation, and planting more efficient and help reduce periods of inactivity.

Local governments are shown to have two valuable resources for aiding the development of new enterprises. These resources are public employment funds and municipal revenues. It is pointed out that if these funds are used selectively, some community enterprises can be sustained through municipal/government subcontracts and by subsidizing their payroll accounts with CETA slots.

The final section of the chapter directs itself to the issue of underrepresentation of rural groups. Two organizations discussed are community development organizations and cooperatives. The usefulness of these organizations as lobbying groups as well as their potential for providing training and relevant work experience is pointed out.

The impact of the devaluation translates into complex policy questions for decisionmakers in each of the above areas. More agriculture workers than ever are now unemployed and any future plans for efficient agricultural development will be hampered by the need to absorb them into the labor force.

Local governments must now bear devaluation-caused losses in addition to the costs of funding new enterprises. Finally, rural groups must modify their organizing strategies to include the devaluation's effects on their members.

CONCLUSION

This study has had two objectives. First, the study has examined the effects of the Mexican currency devaluation on three specific sectors of the region's economy: the retail sector, financial institutions, and two state-operated income maintenance programs, the Texas Employment Commission's Unemployment Compensation Program, and the Texas Department of Public Welfare's food stamp program. Second, in order to understand the implications of the devaluation's impact on the development of the region, we briefly examined the specific policy issues raised by the impact: post-devaluation economic development strategies, U.S. immigration as it concerns the commuter, and illegal immigration from Mexico.

Chapter One explained the close association between U.S. and Mexican border communities, and why an action of either government would affect the communities on both sides of the border.

Chapter Two analyzed the devaluation's effect on the retail sector of McAllen and Brownsville. Data and interviews documented the drop in sales for retail merchants following the devaluation and their subsequent attempts to minimize losses through sales, employment cutbacks, and cancelling orders. Further, it was found that those merchants hurt most severely by the devaluation, were those located within the downtown area of Brownsville and McAllen (and thus most easily accessible to Mexican shoppers), did not carry large merchandise selections, nor were they affiliated with national chains. Most importantly,

findings from the analysis show that retail businesses will continue to minimize all costs, including personnel, for an indefinite period. This suggests that federal assistance to retail could not bring employment back to its levels prior to the devaluation.

In Chapter Three the analysis focused on the devaluation's impact on border financial institutions. Data documented the increase in time deposits in commercial banks, both immediately before and after the devaluation, a result of the capital inflow produced by Mexican depositors attempting to protect their cash holdings. Although commercial bank data were ambiguous, savings and loan data gave a clearer indication of the devaluation's impact on the economy. These data showed that significant drops had occurred in deposits and new loans in the quarter period following the devaluation. In addition to the bank data, interviews with bank officials provided insight into the reasons behind post-devaluation bank policies. Officials stated that the new deposits would be invested in securities in order to provide adequate liquidity if the deposits were suddenly withdrawn. This procedure indicates that the new deposits would not produce any long-term lending. Additionally, bank officials revealed they follow more cautious lending policies. When questioned about their perceptions of the area's development needs, it became apparent they saw no role for their institutions in the development process. However, the thesis concluded the chapter analysis by mentioning a change in their investment methods which would aid in the area development.

Chapter Four examined the devaluation's impact on two state-operated income maintenance programs, the Unemployment Compensation program and the Food Stamp program. The analysis showed that both programs had been affected by the devaluation because of the employment cutbacks and shorter work weeks discussed in chapter two's examination of the retail sector. Moreover, the program depicted a magnitude of program participation that emphasizes the need for programs able to do more than merely maintain large numbers of participants at low income levels. Rather, the area needs programs that will provide participants with the lasting benefits of education and training.

Part II of the thesis begins an examination of the major policy issues raised. The issues raised by the devaluation not only concern area economic issues, but also the broader issues of illegal migration from Mexico. In reviewing several studies on illegal migration from Mexico, one writer, Cornelius, suggested that Mexican migrant agricultural workers prefer California to Texas because of the higher wages in the industry there. Since agricultural work is the primary source of employment along the Lower Rio Grande Valley, this suggests that the impact of illegal migration will be slight in this area.

It was also discussed that the commuter poses a more serious employment threat than illegal aliens to U.S. border labor force because of their legal status. However, a more careful analysis requires more data, especially occupational information. Given this information, the labor certification process could become an effective mechanism for controlling their entry.

The devaluation has also produced questions on the adequacy of federal development policies in the area. The study examined this problem by reviewing the arguments both for and against federal investment in depressed regions; the theories of planned adjustment and national demand. Present EDA public works strategy was criticized for not taking into account many factors associated with rural areas that strongly influence a private firm's decision to locate within the area. Problems pointed out were transportation costs, the few primary inputs the area has to offer to industry, the low-skilled and poorly educated labor force, and the cultural-language differences found in South Texas.

The final chapter proposed alternative strategies that deal with the limitations of the above strategies. Emphasis is placed on making use of the resources that are available to the area. Thus, major consideration was given to the role the agriculture industry, local governments, and rural organizations might play in the area's development.

APPENDIX 1

Excerpts from Echeverria's State of the Union Message, September 1, 1976.

The need for making unprecedented efforts to obtain funds to finance a public investment program in the basic sectors of the national economy made it necessary to remodel our policy with regard to taxes, public sector prices and rates, domestic credit, and foreign borrowings. In the frame of this finance strategy and in order to preserve a desirable climate of calm and confidence in the face of international economic unrest, the enormous effort of mobilizing domestic and foreign savings made it essential to maintain the existing exchange rate between the Mexican peso and the U.S. dollar.

Economic, fiscal, and financial policies were directed toward capitalizing on confidence in the peso's internal and external value to restructure the bases of our national economy which could not have been accomplished at that time with any other exchange rate.

Public investment climbed from 30 billion pesos in 1970 to over 100 billion pesos in 1975. In this administration, public investment for the first time surpassed private investment.

...We substantially rechanneled the available supply of domestic credit into strategic public sector projects and made the greatest possible use of foreign credit allowed us... [These economic] conditions and national commitments have inevitably exerted a decisive influence on production costs and prices, restricting the country's production activity and competitive potential. The current account deficit in the balance remains high.

This deficit is not basically the result of inadequate capacity to produce goods and services... The problem is that rise in foreign market prices has been somewhat low in recent years, whereas domestic costs and prices and those at which we fix our export commodities have moved up at a fast pace, thereby weakening our competitive position abroad. This curbs our foreign sales possibilities and discourages tourism. Further it encourages imports and the contraband of products that compete with local industry and induces Mexicans to travel and spend heavily abroad... We adopted several measures during this administration to deal with our growing deficit, Exports have been bolstered through a duty rebat mechanism and special financing and guarentees. A massive institutional sales promotion effort has been made in a great many countries. Strict import controls were applied, but further tightening would affect the supply of vital raw materials, equipment, and machinery needed for industry, reduce employment, and undermine endeavors for shared development.....

These measures, though highly beneficial to the

economy did not sufficiently restore export dynamism, even though our foreign markets began to show recovery, nor were import values adequately adjusted and our balance of tourism services continued to less than satisfactory...

The behavior of foreign trade flows, the relation between our price levels and those abroad, verification of a growing unused capacity in domestic factors of production and the curbing effect this has on the generation of urgently needed jobs led us to the conclusion that the Mexican peso's current rate of exchange is unequal to the task of restoring our balance of payments.

Knowledge of this situation encourages the flight of frightened capital and depletes the volume of domestic savings needed to finance development...

The new exchange rate must be fixed, under conditions of free convertibility, by real economic market forces shaped by current national and international conditions. It must be kept flexible for some time, allowing it to reach the suitable level for correcting our balance of payments deficit and dealing with speculative flight, without uselessly sacrificing the country's goal, silver, and foreign currency.

To be sound, this new level must fulfill several basic economic policy objectives: promote export growth of farm, livestock, fishery, and mining products, manufacturing goods and tourism services by making **good** use of Mexico's ample production capacity; curtail the import of goods, including contraband, that compete with local industry, and discourage spending by Mexican abroad so that this foreign exchange can be funneled into the creation of jobs at home; reduce foreign borrowings, remove the distrust that triggers capital flight and avert an excessive increase in domestic prices.

Regulated temporary flotation will be accompanied by an economic and financial strategy, embodied in short-term and long-term programs... The strategy is composed of the following basic decisions;

1. To recover and preserve the competitive capacity of our exports of goods and services, ensuring that the rise domestic prices and costs is substantially lower than the exchange rate adjustment.
2. To protect the purchasing power of low-income groups.
3. To prevent unwarranted profits.
4. To protect the financial soundness of business firms.
5. To control the public deficit.
6. To regulate credit expansion.

APPENDIX II
METHODOLOGY

Because of the preliminary nature of this study, a major task involved identifying which information sources could be utilized. Secondary data sources were the 1972 Texas Census of Retail Trade, the 1970 U.S. Census of Population, the 1972 Census of Selected Service Industry, and the 1973 County Business Patterns. Relevant information was also provided by the Texas Employment Commission, the Texas Comptrollers Office of Public Accounts, the Federal Reserve Bank of Dallas, and the Texas Savings and Loan Department. These state and federal offices provided current labor force estimates, bank deposit data, occupational information, savings and loan data, etc. Newspapers and relevant periodicals were also used.

Upon completion of the secondary sources' data collection, it was necessary to gather primary information through interviews. The interviews served two functions. First, they provided the study to gain insight into the problems faced by those particular sectors of the economy under study. In addition, the interviews allowed the study to identify other sources of information. These included the local Chamber of Commerce, the local Board of Realtors, the Texas A & M Real Estate Research Center, the Texas Department of Public Welfare, and local Retail Merchant Associations.

It should be stated that although some of the interviews

provided usable primary data, in most instances the interview merely produced anecdotal and unofficial information.

Interview Format

The interviews used in this study occurred in McAllen, Texas during the period of December 15, 1976 to Dec. 23, 1976. McAllen was chosen for several reasons. First, local contacts with business, financial institutions, government officials, and the Mexican-American Center for Economic Development made scheduling of the interviews easier. Second, since the McAllen SMSA has greater employment in the retail-wholesale sector than the Brownsville SMSA, it suggested the impact and its effects might be more observable in McAllen. A third factor was the close interaction of border communities following the devaluation to the point of exchanging weekly on pedestrian traffic flows, etc. Moreover, since the study focuses on the business reaction following the devaluation and appropriate policy responses, collecting data from disaggregated sources placed pressures on other time usage. The data presented for both the McAllen and Brownsville SMSA are for the sake of comparison, but the author acknowledges their limitations.

Because of time limitations and the risk involved in questionnaire responses, interviews were conducted in person. Most of the questions directed at the interviewees concerned the time sequence of events following the devaluation and business reactions. A sample of the questions asked are:

1. Could you outline the process that took place in the retail sector after the devaluation? Please be specific in the steps and specify the timeframe in which these steps took place?
2. What are the long-term strategies that businesses are facing now that devaluation is several months old?
3. Can you identify which occupational types have been laid off? What was the prevailing wage in these categories?
4. Will you estimate how many workers were resident workers and how many were Mexican nationals?

For financial officials, general questions asked were:

1. How did the capital flow from Mexico affect your deposits?
2. What type of deposits were these?
3. Were these deposits of significant amounts to finance or invest?
4. How did the devaluation affect delinquencies?
5. What is the Bank's policy to Retail Merchants?
6. What is your primary concern in the short-term?

These were the general questions asked. However from discussions that followed, other questions usually did arise.

APPENDIX III

MCALLEN-PHARR-EDINBURG SMSA

EXPERIENCED WORKERS REGISTERED BY OCCUPATIONAL CODE

OCCUPATION	12/31/75	3/30/76	6/30/76	9/30/76
PROFESSIONAL, TECHNICAL, & MANAGERIAL	608	574	1,245	895
CLERICAL & SALES	1,419	1,380	1,349	1,298
SERVICE	1,235	1,221	1,371	1,289
FARMING	2,463	2,674	1,739	1,495
PROCESSING OCCUPATIONS	1,284	1,019	810	964
MACHINE TRADES	398	394	313	314
BENCH TRADE	389	354	329	342
STRUCTURAL WORK	2,064	1,940	1,425	1,397
MISCELLANEOUS	3,181	2,740	2,489	2,579

¹These figures do not include workers that are listed as entry-level workers. Such workers are defined as individuals who wish to enter another trade or who are trained but do not have experience in the particular field.

Source: Texas Employment Commission, Occupational Information on Registered Workers. Quarterly Reports. Austin, Texas. December, 1976.

It is extremely difficult to obtain accurate monthly information on the occupations of the unemployed labor force. This results from both the absence of required data and TEC's reluctance to spend a great deal of time and effort collecting it.

If the information were available, determining specific occupations affected by the devaluation would be possible. TEC does collect occupational information on its registered unemployed workers, but the number of registered workers is reported only at the end of each quarter. Thus, if some workers find employment without using the job placement services of the Commission and/or employed between the two reporting periods, their numbers are carried from quarter to quarter without change.

Another problem with data collection is the Commission's practice of categorizing registered workers under more than one occupational code. The table in this appendix presents the occupational data collected by TEC.

It might be added that the study did attempt to use these figures in the analysis. It was hoped that since the devaluation occurred on August 31, 1976, the workers laid-off would be reflected in the third-quarter printing. However, this type of analysis was not successful.

The only information available came from local TEC interviews. Officials related that a high number of workers did register in the sales and clerical occupations.

FOOTNOTES

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- ²Ibid., p. 372.
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- ⁴"Mexican Wages Up," Wall Street Journal, January 21, 1977, p.25.
- ⁵Richard A. Schaffer, "Mexico Peso Allowed to Sink Again, The Second Time in Less Than 2 Months," Wall Street Journal, October 28, 1976, p.45.
- ⁶Greater South Texas Cultural Basin Commission, Report to the Governor and the Legislature, 1974, Austin, Texas, p. 81.
- ⁷Organization developed in July 1966 under EDA guidelines establishing it as an economic development district.
- ⁸Lower Rio Grande Development Council, Overall Economic Development Program McAllen, Texas, December, 1976, page 1 of Overview.
- ⁹Immigration and Naturalization Service, McAllen Office, "Deportable Aliens Located by Border Patrol," McAllen, Texas, 1975, Unpublished Information.
- ¹⁰Lower Rio Grande Development Council, P. 6 of overview.
- ¹¹Ibid., page 1 of overview.
- ¹²Carl Rush, "The Human Condition in Hidalgo County, Texas," Pan American University, May 1973, p.5.
- ¹³Lower Rio Grande Development Council, p.14 of overview.
- ¹⁴Rush, p.6
- ¹⁵Greater South Texas Cultural Basin Commission, p.55.
- ¹⁶Rush, p.9.
- ¹⁷U.S. Bureau of the Census, Census of Population, 1970: General Social and Economic Characteristics, p.45-407.
- ¹⁸Texas Employment Commission, Manpower Trends, Austin, Texas, January, 1977.
- ¹⁹U.S. Bureau of the Census, p.45-551.
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- ²¹Ibid.
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- ²⁵Ibid.
- ²⁶Joan Moore, Mexican-Americans, Englewood Cliffs, N.J., Prentice Hall, 1970, pp.42-43.

- 27 Briggs, The Mexico-United States Border..., p.7.
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