

United States Congress, House, Committee on Banking, Finance, and Urban Affairs, Subcommittee on International Development Institutions and Finance

DEVELOPMENT LENDING AND ILLEGAL IMMIGRATION

306

4 - JAN 30 1977

HEARING
BEFORE THE
**SUBCOMMITTEE ON INTERNATIONAL
DEVELOPMENT INSTITUTIONS AND FINANCE**
OF THE
COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
NINETY-FIFTH CONGRESS
FIRST SESSION

SEPTEMBER 14, 1977

Printed for the use of the
Committee on Banking, Finance and Urban Affairs



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1977

98-813

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DEVELOPMENT LENDING AND ILLEGAL IMMIGRATION

WEDNESDAY, SEPTEMBER 14, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
DEVELOPMENT INSTITUTIONS AND FINANCE,
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m. in room 2222, Rayburn House Office Building, Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Representatives Gonzalez, Tsongas, LaFalce, Hannaford, and Hyde.

Chairman GONZALEZ. The subcommittee will please come to order. I first wish to thank our two witnesses. We may have other members later on, but a word of explanation is in order.

First, I have noticed that the reforms of the House have ended up in a need for real reforms. You see, this morning you have about three or four simultaneous subcommittee hearings that involve interconnecting, or interlocking, membership.

Also, I don't know, I guess I have a pretty ill-starred track record as a committee chairman. Yesterday we had our minority ranking member announce a meeting to see a part of the CBS documentary on illegal aliens. We were supposed to have that one earlier this morning. So, I warn the witnesses, this is what you are facing.

However, on a serious basis, I am deeply grateful. I know that in one or two cases you had conflicts, and I believe you have a need to get away because you postponed your trip—which I want you to know we are deeply appreciative for. And the substantial members of the subcommittee are aware of it, and the only reason they are not here is because one is chairing a hearing himself; the other is having a caucus on a bill that he is trying to get up on the House floor this week, and that is the only reason.

But I do want to impress the fact that this meeting is considered very important by us. In the message that the President sent the Congress just about the time we were to recess, he made reference to the international financial institutions, and the possibilities that they could have some bearing, or throw some light on this question of the illegal alien phenomenon, but it was with very little notice.

In the first discussion that I attended of a group of Senators and Representatives with the President, I had suggested that. So I felt that it was a recognition of the suggestion that I had made. Therefore, I have a very personal and keen interest in this, and we are very anxious to hear your ideas in the presentation.

Thank you, Mr. LaFalce, I appreciate your coming.

Mr. LaFALCE. Thank you, Mr. Chairman.

Chairman GONZALEZ. This hearing of the subcommittee is for the purpose of exploring whether or not the relevant lending institutions can structure their lending program in a way that will help reduce the flow of illegal immigration into our country. Another way of looking at this is that it is an examination of just how effective development bank lending has been or can be instrumental in reducing the great difference in economic opportunities between countries that are rich and those that are less well off.

Our witnesses today will be the U.S. Executive Director for the World Bank, Edward R. Fried; the U.S. Executive Director for the Inter-American Development Bank, Ralph Dungan; the Deputy Assistant Secretary of the Treasury for Developing Nations, Arnold Nachmanoff; and the Deputy Assistant Secretary of State for Inter-American Affairs, Richard G. Arellano.

I am informed that Mr. Nachmanoff was originally scheduled to be in Paris today. I feel very guilty about that. I understand Paris is as pretty in September as it is in the spring. So, he has delayed his trip to be here, so we are going to try to get to him first and allow him to get away as soon as possible.

We are very grateful, under the circumstances.

I would like to have the privilege of reading into the record a short statement that I have prepared:

There is no question that illegal immigration exists, and there is no question that there are a great many illegal immigrants in this country today. But, unfortunately, there is far more that is unknown about this than there is known. We have had wildly varying and diverse statements as to what the estimates of illegal flow is.

In my district, for example, where I am about 150 miles in from the border and is the most historical spot in the United States that has identification with Mexico, there is no way that anybody can tell me just what the illegal flow is. I have personally contacted almost every single local organized union unit that would have any bearing, and they at this time show very little interest.

A few years ago when the Rodino bill first came out, the unions and the representatives were the ones who were the most adamant in seeking its adoption. Not one union group in San Antonio can tell me at this time from any knowledge they have as to what, from any informative or documented source they have, as to what that number is—even approximately—in San Antonio.

One reason I think that they are not interested, at this point, is that the only study I have seen of any real consequence is the one that was made by a Federal Reserve bank in the Dallas district, an officer who based his study on an inhouse Texas region immigration and naturalization survey that had been made in which a certain number of illegals had been interviewed.

His projections show that better than 74 percent were earning less than the minimum wage. So, this would tend to show why the unions don't care much right now. There are very few of the illegals who are earning \$4.50 an hour, or anywhere approximating the prevailing union standards.

Now, the thing I am mostly interested in is the humanitarian aspect of this. What is going on is shameful. The United States should never be in the position of countenancing, through indifference and inaction, what is going on. Because it involves, in my State that I know of, cases where for instance four workers were killed in a cave-in in my city in my district within 2 days. One on one day, three the next day, where they were digging a trench. Every one of the workers was an illegal alien. Every one of them was not protected by the basic safety precautions that OSHA in its regulations should have been insisting upon.

Of course, we cannot blame OSHA because it has been quite a bit watered down by congressional action. But, nevertheless, it is reflective of the environment in which this worker finds himself, finding that he is in desperate need of employment being the only reason he really comes over. He is working at submarginal levels, and he is working in an exploitive way. More than that, in our area we have had a case where posses have been set up, and ranchers go out in jeeps as if it is an open season on some illegal alien they are hunting down.

We have one case in which a young illegal farm worker, for some reason or another, was pursued that way. He was hunted down worse than an animal, and finally caught up with and was so shot up that when his wife came from Mexico to identify the body she couldn't even recognize him. There is absolutely no protection in these twilight areas, and yet these are the areas in which you have the heaviest involvement of employment.

The study that I refer to also indicates that the estimate is far more modest for the State of Texas than what had been reported by the former Immigration and Naturalization Commissioner, and some of the estimates that have been written about lately. So, we really don't know. We have no real, fundamental documented information as to the extent of the problem. And, for this reason, President Carter's recommendations which have not yet been presented in the form of a bill—we have no bill before the Congress; we have this general recommendation which, as I said, was presented right about the time we were taking off on the recess.

Actually, it is a recommendation for emergency legislation. And I can't conceive of us acting without at least getting some kind of a documented figure that is halfway reliable. All we have is extrapolations based on extrapolations. As the former Commissioner who, in very bombastic statements, kept saying that Mexican illegal immigrants were coming in at the rate of 10 to 12 million in the country.

But, when the committee examined him, he admitted that it was just a guess, and that he was taking a mean average from what he had heard when he came on and what he figured was going on now.

Well, that is hardly something to go on in emergency legislation. We do know two things for certain: That is, that the immigration law is unrealistic. In 1965, I voted against the famous act of 1965 which President Johnson signed at the base of the Statute of Liberty. Because, for the first time, an amendment offered by a former Representative from Minnesota, Clark MacGregor, was placed which set quotas for the Western Hemisphere, particularly Mexico and Canada—which I thought were absurd.

I was the only one that opposed it on the House floor. But, unfortunately, the chairman then of the Judiciary Committee backtracked on me. He had said he wouldn't, but he did accept the amendment from Representative MacGregor, later the special assistant of President Nixon. I felt that it was absurd to say, no matter what equitable distributions we are seeking in the law for source of origin or country, to try to place the two geographically adjacent countries such as Canada and Mexico on the same footing as Iceland. And yet, that is what it would have done.

And, to compound matters, the chairman of the subcommittee of the Judiciary Committee last year at midnight, after some of us had left the floor to go check on a bill in the Senate, got up and asked for unanimous consent—with about seven people present—and further reduced the quota allowable for Mexico—with no chance to debate, not even knowledge. So, therefore, I have more than just a personal passing interest in this; but also a concern. Because the situation, as you know—the witnesses know this better than I do—involves a very sensitive area with respect to the Government of Mexico.

And, on top of that, from a purely humanitarian standpoint, we can hardly in the United States talk about human rights when we allow some of these things I described a while ago to go on almost weekly, with no perceptible protest from anybody, including the Mexican Government. These workers have no protection from either their national government or ours. And I think that is a very black spot on our record.

The greatest number of illegal entrants are Mexicans—60 percent, it is estimated—40 percent are on our eastern and western shores, and Canada. Which shows that it is still substantial, even though we in the Southwest like to think there's only one problem, and that's the illegal entrant from Mexico.

We are well aware of the fact that it is a national problem.

Now this study I referred to shows that the typical Mexican in a manufacturing trade earns far less than the U.S. minimum wage—about \$1.53 an hour.

We know that the purpose for which these illegals come in here is to work—and they are willing to work at anything, because almost anything in our country is much more than whatever they could get if they could get a job in Mexico. There is tremendous wage disparity—125 miles south of the border from the nearest point from my district, in the mines there the mine worker at the present time receives no more than about \$1 a day. If it had not been for an explosion that cost the lives of over 130 about 3 years ago, nobody would have heard of such an activity even there.

Now, this is very close to the border, and with that kind of wage disparity we know that this phenomenon is not going to disappear, or that we can afford to continue to muddle through.

The studies further show that the illegally entered Mexican workers indicate that nearly all of them came in for that one purpose—to find a job. Now, while some stay here on a permanent basis, most don't intend to say here and do go back home.

It is estimated that if the figure, as projected by the present Immigration Commissioner is correct, that there are at least 1 million of this flow that go back to Mexico yearly. Now, whether this is taken into

account in the figures that show how many they think are in this country or not, I don't know. The vast majority soon find jobs. And, of course, in the lowest paid occupations.

The estimate of this study I referred to shows that there are about 697,000 illegally entered Mexicans working in Texas, about three-fourths of them, as I said—well, much more than three-fourths—at less than the minimum. As I said, more than 94 percent.

As for the economic impact—which is what we are interested in—no one really knows that, either. None of the unions in my district can show me where they have any displaced worker, because of an illegal getting a job—at least that is what they have told me within the last month or so. And they have no knowledge, so they say, no records or no documented facts. They think that most of those in my area are working in the home construction business, if any at all. This would be borne out by this fatality record that we have had. But it doesn't necessarily show that that is true.

But even if the true figure is 697,000 the figures contradict our impression. And that is, most of them are not working in rural or farm occupations. They are working in either light manufacturing or in some other service capacity.

Now, it is estimated that undocumented Mexican workers return about \$3 billion a year to their home country. Even if the true figure is only a third that high, obviously the money these workers send home is a very important factor to the Mexican balance of payments. In fact, it compares most favorably, from what they get from the tourism account.

Do undocumented workers displace Americans from jobs? No one knows the answer to that, as best I can establish, and in my district I can say absolutely that the people that ought to know—the organized union movement—indicate they have no knowledge of any such factor.

The one certainty, aside from the fact that a great many workers have entered this country illegally, is that they do so because their best chance to get a reasonably well-paying job—or in many cases, any job at all—is to leave home and country and come to the United States.

I believe that it is possible that the development lending agencies could develop programs that would help alleviate this disparity, and thereby reduce illegal entry. It is certain that law enforcement alone will not do it.

Unilateral action, I don't think, will do it as far as the long run of obtaining a handle on this problem is concerned. And then it is for sure that the little insanities like reducing the Mexican immigration quota, which we did—as I said—last year under these tricky circumstances, are only exacerbating the problem.

The development banks have invested a great deal in Mexico, \$4.3 billion altogether, or about \$21 per capita—far less than others have received, on a per capita basis, but still enough investment to be a large factor. Could development banks concentrate more on loan projects that create jobs, rather than on projects that involve huge capital outlays? Could the banks influence the Mexican Government, itself, to adopt policies that would ease the maldistribution of income in the country, or stress the creation of employment opportunities in its own investment plans?

Mexico is not a recipient of bilateral aid, nor is it interested, and it is very jealous, in warding off that kind of help. They look upon it as reducing their independence and sovereignty. And whether we agree or not, that is a fact.

So I would think that the multilateral banking approach would be about the only way, if it is possible.

What, in short, can the banks do to help not just overcome the lack of investment capital, but to see that Mexican investments and economic policies are structured in a way that helps reduce the opportunity gap—and thereby reduces the flow of illegal workers? What have the banks done, and what will they, or can they, do?

I do not suggest that the banks can overcome the problem alone. Our immigration laws are a large part of the problem, for it is simply impossible to enforce a statute that sets an artificially low limit on Mexican immigration quotas. Matters have not been helped, though, by economic forces, especially since the 1976 peso devaluation. Immigration law reform is beyond the scope of this subcommittee and this hearing, but we can deal with the most vital aspect of the situation—which is, the question of economic opportunity. This is what the hope is for this hearing—a realistic discussion on what has been done and can be done.

And with that, I think I have said enough. And again I welcome the witnesses. Mr. Arellano, we had said that we would try to hear Mr. Nachmanoff first, because he postponed a trip to Paris in order to be here, and he is going to try to take off today as soon as he is released.

Mr. LaFalce came in. Mr. Hannaford is present. I will ask Mr. Hannaford if he has a preliminary statement?

Mr. HANNAFORD. I have no statement, Mr. Chairman. I assume that the purview of the subcommittee is to investigate only that aspect of the problem that deals with the disparity of wages and job opportunities on each side of the border.

Chairman GONZALEZ. Yes; and also what the bank officials and other officials have to say about what has been done in the lending practices that impact on this, and what could be done, or what possibility there may be—

Mr. HANNAFORD. Well, my section of the country and my district is heavily impacted by this problem, as is yours. Ours is such a flow that it calls for an eight-lane highway by San Clemente.

I suspect the numbers of illegal immigrants are staggering. No one really understands them. I do think in our State that a substantial part of the farm labor is illegal. That is my understanding. The conditions under which the illegals work, as you indicate, is a disgrace to this country. They are people without protection on the other side of the border. They are exploited as slave labor in unsafe and unhealthy circumstances, often working a 12- and 14-hour day while being paid subminimum wages for an 8-hour day.

So, I commend you for having this hearing. I am not going to be able to stay for all of it, but I think it is of the greatest importance. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much for your interest.

Mr. Tsongas from Massachusetts is present, and I expect Mr. LaFalce will return as soon as he gets free from another subcommittee. Mr. Tsongas, do you have any preliminary statement you would like to make?

Mr. TSONGAS. I guess I represent the Ellis Island point of view, from the East.

Chairman GONZALEZ. Well, you have a problems up there. It's estimated that about 40 percent of the illegals come in from either that point, or east or west coast also; 60 percent from Mexico.

Mr. HANNAFORD. Irish.

Mr. TSONGAS. That is what people were saying about my father when he came 50 years ago.

Chairman GONZALEZ. That is what makes it very difficult, I might add, because every one of us knows what our fathers and forefathers came here for pretty much the same reason that most of these workers are trying to get into the country. So it makes it very hard. It is very difficult. But, still and all, I'm glad that at least the Carter administration is addressing itself to it.

So, without any further waste of time, Mr. Nachmanoff, we recognize you as the leadoff witness.

**STATEMENT OF ARNOLD NACHMANOFF, DEPUTY ASSISTANT
SECRETARY OF THE TREASURY FOR DEVELOPING NATIONS**

Mr. NACHMANOFF. Thank you, Mr. Chairman.

It is a great honor to appear before you to discuss their important subject.

In order to keep our presentations as brief as possible, and to facilitate discussion, my colleagues and I propose to divide our initial remarks along the following lines, if that is agreeable with you.

That is, I would focus primarily on the nature and causes of the undocumented aliens' problem, and how development assistance may be helpful.

Chairman GONZALEZ. If there is no objection, that's fine.

Mr. HANNAFORD. That's what I would do, Mr. Chairman, if I were waiting to go to Paris. [Laughter.]

Mr. TSONGAS. It may even be a great honor to go to Paris, too.

Mr. NACHMANOFF. Yes, indeed. Thank you.

Mr. Arellano will expand upon these subjects, as well as discuss the impact of the problem on our bilateral relations. And the U.S. Directors of the World Bank and the Inter-American Bank, Mr. Fried and Mr. Dungan, will address the question of what their respective institutions are doing, and what they might be able to do to help alleviate this problem.

I would like to talk, first, about the nature and causes of the problem:

The roots of the undocumented alien problem in all source countries are principally economic in nature, Mr. Chairman, as you have so clearly stated. Income levels and general living conditions, for many of the people in these countries—particularly those in rural areas—are much lower than those in the United States.

Their prospects for improvement are relatively limited in most cases. These are the factors which "push" individuals to leave their home areas. Many of them migrate to urban centers in their own countries, but others migrate across national borders to the United States.

Why some migrants go to Mexico City, for example, and others to the United States is not fully understood. However, the attraction

of living in an urban or an industrial environment, with its social amenities and services and infrastructure, combined with the perception of greater opportunities for employment, for a higher standard of living, for upward mobility seems to pull many of these individuals to the United States.

We will focus primarily on the major source country, Mexico, which you noted, Mr. Chairman, is estimated to be the source of perhaps 60 to 65 percent of the undocumented aliens in the United States. However, other important source countries include Jamaica, the Dominican Republic, Haiti, Guatemala, Peru, and Ecuador. Many of the problems which generate migration from these countries are similar to those of Mexico and, therefore, our discussion will also be applicable to those countries.

The entry of undocumented aliens into the United States from Mexico became a noticeable pattern toward the end of the last century. In many cases, it has become an ongoing social process involving several generations of Mexican workers.

The U.S. Government made several attempts to ameliorate the problem in previous years, but none of the measures taken have had a lasting effect. In fact, the problem has become more acute, particularly since 1970. It is now estimated that somewhere between 300,000 and 600,000 Mexicans cross the border illegally each year. The long border makes illegal entry relatively easy, and only a small fraction are apprehended by the Immigration and Naturalization Service.

Many of these individuals are apprehended only after they have illegally entered the United States a number of times.

Most of the Mexicans who enter the United States illegally come from rural areas in the North Central States of Jalisco, Chihuahua, Michoacan, Zacatecas, Guanajuato, Coahuila, and Durango. Only two of those States are located along the border.

In contrast to those rural migrants who go to the urban areas in Mexico with a view toward living and working in those areas permanently, many of those who came to the United States do so with the idea of earning substantially more money than they can in Mexico, and then returning to the areas from where they came to buy farms or set up small businesses. People in the latter category frequently have to come to the United States several times over the course of many years before their goals are realized.

Now, one of the basic causes of the undocumented aliens problem, Mr. Chairman as you noted, is the very substantial gap which exists between the number of unemployed workers and available jobs in Mexico.

The Mexican economy has not been able to generate sufficient employment opportunities to close that gap. It is estimated that each year there are some 600,000 to 800,000 new entrants into labor force—a labor force which now consists of 17 million people. Unemployment in Mexico is estimated at between 15 and 18 percent, with perhaps an additional 25 percent underemployed. Even at annual growth rates of 5 to 8 percent, which Mexico achieved in the early 1970's—it is estimated that only about 300,000 new job opportunities are created annually.

With the growth rate reduced to 2 percent, as it has been in the past 2 years, new job opportunities dropped to about 200,000 annually.

Thus, new job opportunities have not been sufficient to absorb the number of new entrants into the labor force, the level of unemployment has increased, and pressures for outward migration have continued to mount.

A fundamental factor in the persistence of this problem is the growth rate and composition of the Mexican population. The rate of population growth is estimated at between 3.2 and 3.6 percent per year, one of the highest in the world.

A high concentration of the population is under 15 years of age. Therefore, even under the most optimistic assumptions concerning population, new entrants into the labor force will continue to grow at a rapid rate for many years to come.

While our understanding of the causes and nature of the undocumented aliens problem is far from perfect, and much work needs to be done in this area, it's clear that this is a long-term problem, the solution of which will depend largely upon the success of domestic Mexican measures to reduce population growth, and to generate increased investment in the agricultural and industrial sectors, and thereby create more job opportunities.

The Mexican Government is making serious efforts to address this problem. It has increased public-sector spending substantially to strengthen the country's capital base and improve living conditions in the rural areas.

These outlays have helped, but public-sector revenues have not expanded apace. For example, the public sector deficit quadrupled between 1972 and 1976. This fueled inflation and also resulted in larger current account deficits which were among the principal factors precipitating the economic crisis which came to a head last year. As a result, the Mexican Government has had to cut back on the budget deficit and imports as part of its stabilization program. External development assistance, particularly through the international development lending institutions, can be helpful to the Mexican Government in its efforts to strengthen the economy, to create new jobs, and to improve living conditions and expand its family planning efforts.

It can contribute to the general growth of the economy, both by directly providing additional resources for investment, but perhaps more importantly by acting as a catalyst for increased investment from the private and public sectors.

The Mexican Government and the international development banks have been giving increased attention to development of rural areas in Mexico. This includes not only basic agricultural projects, but also small- and medium-sized industry, infrastructure development, and social services in rural areas. Programs to create jobs and improve living conditions probably will have the most direct effect—that is, programs in rural areas—on the undocumented aliens' problem.

The average cost per permanent job in rural areas is estimated at between \$5,000 and \$10,000—considerably lower than the \$15,000 to \$20,000 cost per job in the industrial sectors. Rural projects, moreover, would produce significant multiplier effects, since the expanded income of the lower income groups would result in increased demand, which in turn would stimulate other productive activities having secondary employment and investment implications.

Development assistance can also provide additional support for the Mexican Government's own efforts to slow population growth. The

Government recently has initiated a major effort to expand family planning programs. This, of course, is a sensitive area involving changes in cultural and social attitudes, and change cannot be accomplished overnight.

Leadership must come from the Mexican Government. The development banks can provide additional resources and expertise, however.

Of course, the development and expansion of the Mexican economy is linked to continued access for its exports to the external markets in developed countries.

Given our geographic proximity and the size of our economy, Mexico will continue to depend heavily on the United States as an outlet for its products.

In concluding my initial remarks, Mr. Chairman, I would note that the World Bank and the Inter-American Development Bank have provided some \$4.2 billion in economic assistance to Mexico since the early 1950's.

At the present time, they lend a total of about \$500 million annually to Mexico. This support for Mexico's economic development undoubtedly has helped to ameliorate the pressure for outward migration somewhat.

The increased attention which the banks are giving to the development of the rural sector should increase the direct impact of their programs on the problem. But, as I noted before, this is a long-term problem and it would be unrealistic to expect quick solutions.

I would like to leave it to my colleagues, Mr. Fried and Mr. Dungan, to discuss more specifically the programs of the international development banks and what those programs have done, or may be able to do, to help ameliorate the problem.

Thank you, Mr. Chairman.

[Mr. Nachmanoff's prepared statement on behalf of the Treasury Department follows:]

STATEMENT BY ARNOLD NACHMANOFF
DEPUTY ASSISTANT SECRETARY OF TREASURY FOR DEVELOPING NATIONS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT
INSTITUTIONS AND FINANCE OF THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS

Mr. Chairman and Members of the Committee, it is an honor to appear before you today to discuss the subject of illegal immigration and what the international development banks can do to help alleviate the problem. In order to keep our remarks as brief as possible, and facilitate the discussion, my colleagues and I propose to divide our initial remarks along the following lines:

My remarks will focus primarily on the nature and causes of the undocumented alien problem, and how development assistance may be helpful. Mr. Arellano will expand on these subjects as well as discuss the impact of the problem on our bilateral relations with source countries, with particular emphasis on Mexico; the U.S. Executive Directors of the World Bank and the Inter-American Development Bank, Mr. Fried and Mr. Dungan, will address the question of what their respective institutions are doing and what they might be able to do in the future to help alleviate this problem.

1. Nature and Causes of the Problem

The roots of the undocumented alien problem in all source countries are principally economic in nature. Income levels and general living conditions for many of the people in these countries, particularly those in rural areas, are much lower than those in the United States. Their prospects for improvement are relatively limited in most cases. These conditions are the factors which "push" individuals to leave their home areas. Many of them migrate to urban centers in their own countries, but others migrate across national borders to the

United States. Why some migrants go to Mexico City, for example, and others go to the United States, is not fully understood. However, the attraction of living in an urban or industrial environment with its social amenities, services, and infrastructure combined with the perception of greater opportunities for employment, a higher standard of living, and upward mobility seems to "pull" many of these individuals to the United States.

Our comments will focus primarily on the major source country, Mexico, since it is estimated that perhaps 60-65 percent of the undocumented aliens in the United States today originate from Mexico. However, other important source countries include the Dominican Republic, Haiti, Jamaica, Guatemala, Peru and Ecuador. Many of the problems which generate migration from those countries are similar to those of Mexico and therefore much of our discussion on Mexico will also be applicable to those countries.

The entry of undocumented aliens into the United States from Mexico became a noticeable pattern toward the end of the last century. In many cases it has become an ongoing social process involving several generations of Mexican workers. The U.S. Government made several attempts to ameliorate the problem in previous years but none of the measures taken have had a lasting effect. In fact, the problem has become more acute, particularly since 1970. It is now estimated that somewhere between 300,000 and 600,000 Mexicans cross the border illegally each year. The long border makes illegal entry relatively easy and only a small fraction are apprehended by the U.S. Immigration and Naturalization Service. Many of these individuals are apprehended only after they have illegally entered the U.S. a number of times.

2. Where They Come From

Most of the Mexicans who enter the United States illegally come from the rural areas in the North Central states of Jalisco, Chihuahua, Michoacan, Zacatecas, Guanajuato, Coahuila, and Durango. Only two of those states are located along the border.

In contrast to those rural migrants who go to the urban areas in Mexico with a view toward living and working there permanently, many of those who came to the United States do so

with the idea of earning substantially more money than they can in Mexico and then returning to the areas from where they came to buy farms or set up small businesses. People in the latter category frequently have to come to the U.S. several times over the course of many years before their goals are realized.

3. Population and Jobs

One of the basic causes of the undocumented aliens problem is the very substantial gap which exists between unemployed workers and available jobs in Mexico. The Mexican economy has not been able to generate sufficient employment opportunities to close that gap. It is estimated that each year there are 600,000 - 800,000 new entrants into the labor force, a labor force which now consists of 17 million people. Unemployment in Mexico is estimated at 15-18 percent with perhaps an additional 25 percent underemployed. Even at annual growth rates of 5-8 percent--which Mexico achieved in early 1970's--it is estimated that only 300,000 new jobs openings are created annually. With the growth rate reduced to 2 percent, as it has been in 1976 and 1977, new job opportunities drop to about 200,000 annually. Thus, new job opportunities have not been sufficient to absorb the number of new entrants into the labor force, the level of unemployment has increased, and pressures for outward migration have continued to mount.

A fundamental factor in the persistence of the problem is the growth rate and composition of the Mexican population. The rate of population growth in Mexico is estimated at between 3.2 and 3.6 percent per year, one of the highest in the world. A high concentration of the population is under 15 years of age. Even under the most optimistic assumptions, new entrants into the labor force will continue to grow at a rapid rate for many years to come.

4. The Role of Development Assistance

While our understanding of the causes and nature of the undocumented aliens problem is far from perfect, and much work needs to be done in this area to improve our understanding of the problem, it is clear that this is a long term problem, the solution of which will depend largely on the success of domestic Mexican measures to reduce population growth and to generate increased investment in the agricultural and industrial sectors thereby creating more job opportunities.

The Mexican Government is making serious efforts to address these problems. The GOM has increased public sector spending

substantially to strengthen the country's capital base and improve living conditions in the rural areas. These outlays have helped but public sector revenues have not expanded apace. For example, the public sector deficit quadrupled between 1972 and 1976. This fueled inflation and also resulted in larger current account deficits which were among the principal factors precipitating the economic crisis which came to a head last year. As a result, the GOM has had to cut back on the budget deficit and imports as part of its stabilization program.

External development assistance particularly through the International Development Lending Institutions, can be helpful to the Mexican Government in its efforts to strengthen the economy, create new jobs, and improve living conditions, and expand its family planning efforts. Development assistance can contribute to the general growth of the economy, both by directly providing additional resources for investment, but perhaps more importantly by acting as a catalyst for increased investment from the private and public sectors. The Mexican Government and the international development banks are giving increased attention to the development of rural areas in Mexico. This includes not only basic agricultural projects but also small and medium size industry, infrastructure, and social services in rural areas. Programs to create jobs and improve living conditions in those areas probably will have the most direct effect on the undocumented aliens problem. The average cost per permanent job estimated at \$5,000 to \$10,000, which is considerably lower than the \$15,000 to \$20,000 cost per permanent job estimated in the industrial sector. Rural projects, moreover, could produce significant multiplier effects, since the expanded income of lower income groups would result in increased demand, which in turn would stimulate other productive activities having secondary employment and investment implications.

Development assistance can also provide additional support for the Mexican Government's efforts to slow population growth. The government has recently initiated a major effort to expand family planning programs. This, of course, is a sensitive area involving changes in cultural and social attitudes, and change cannot be accomplished overnight. Leadership must come from the Mexican Government; the development banks can provide additional resources and expertise, however.

Of course, the development and expansion of the Mexican economy is linked to continued access for its exports to external markets in developed countries. Given our geographic proximity

and the size of our economy, Mexico will continue to depend heavily on the U.S. as an outlet for their products.

In concluding my remarks, I would note that the World Bank and the Inter-American Development Bank have provided some \$4.2 billion in economic assistance to Mexico since the early 1950s. At the present time, they are lending about \$500 million annually to Mexico. This support for Mexico's economic development undoubtedly has helped ameliorate the pressure for outward migration. The increased attention which the Banks are giving to the development of the rural sector should increase the direct impact of their programs on the problem. But, as noted before, this is a long-term problem and it would be unrealistic to expect quick solutions.

I will leave it to my colleagues Mr. Fried and Mr. Dungan to discuss more specifically programs of the international development banks and what those programs have done or may be able to do to help ameliorate the problem of undocumented aliens.

Chairman GONZALEZ. Thank you very much.

I realize that you do have a need to leave as soon as possible—

Mr. NACHMANOFF. Mr. Chairman, I can remain for the remainder of the hearing.

Chairman GONZALEZ. You are in a position to remain? OK, fine. Well, then, what would you suggest, Mr. Hannaford and Mr. Tsongas? Do you have any questions? Or should we hear the witnesses and then ask questions?

Mr. TSONGAS. Mr. Chairman, I have an 11 o'clock meeting in the Speaker's office. I would like to hear the testimony.

Chairman GONZALEZ. All right.

Mr. NACHMANOFF. May I suggest, Mr. Chairman, that Mr. Arellano might proceed?

Chairman GONZALEZ. Fine. We will recognize Mr. Arellano.

Mr. ARELLANO. Thank you very much for this opportunity to appear before you. I have more than just a passing interest in this subject.

I, in 1947, came from Mexico first to Kerrville, and then to San Antonio. Mr. Chairman, in fact I know the term "illegal" doesn't apply here, but as you noted this is a doubly sensitive subject for many of us because we are familiar, on a firsthand basis, with what the problems are that have occurred.

Chairman GONZALEZ. As a matter of fact, it was in Kerr County—I don't know if you were present. I referred to a case—a very shameful case—where this illegal was hunted down and shot so badly he couldn't even be recognized—posse justice, and apparently it isn't the first time—in that county. This happened before in surrounding counties; it has happened before, but this was a pretty bad case.

I know of nothing that is being done by either Government, the Mexican Government or the American Government, to try to at least avoid such terribly devastating abuses. Because the individual is in this twilight "illegal" category and in these areas it's pretty rough. But, for what reason it seems to be exacerbated in Kerr County, I don't know. There is quite a number of illegals in Kerr County.

Mr. ARELLANO. I can only comment that my stay there was a pleasant one.

Chairman GONZALEZ. Well, it is a beautiful part of the State, and my experiences there have been pleasant. But in the early years, it was considered a hostile area for minorities. But, in the case of the illegal farmworker, or ranch help, there is no question that this pattern of abuse seems to be exacerbated. I don't know why. In the hunt, it involved not only the established authorities, but almost every rancher that could get a jeep and get his carbine and go out.

I just thought I would mention that.

Mr. ARELLANO. I will have to bear that in mind when I go back down there. Mr. Chairman. I would like to expand a little bit—Mr. Dungan says I will pass, and I don't have to worry.

[Laughter.]

STATEMENT OF RICHARD G. ARELLANO, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Mr. ARELLANO. At present the problem of undocumented aliens is the most important and the most serious one which we have with Mexico. From the U.S. domestic point of view, it is charged that illegal

immigration from Mexico exacerbates our own unemployment problem, depresses wages, puts a drain on our social welfare program, and results in a considerable public expenditure for policing the border and apprehension of illegals and represents a drain of foreign exchange through remittances.

From the Mexican viewpoint, illegal immigration is a "safety valve" for the Mexican economy which relieves the pressures created by its domestic unemployment and the lack of development in its rural areas.

In this context, the Mexicans view the problem of undocumented workers as a mutual one which must be solved through joint effort with the United States, rather than merely through unilateral sanctions and regulations by the United States which would treat the illegals as criminals.

Until we are able to solve this problem amicably and cooperatively with Mexico, it will be a festering sore which will adversely affect the totality of our bilateral relations with Mexico and less directly the other nations of Latin America which depend upon emigration to the United States to relieve their unemployment pressures.

As President Carter said in his message to Congress August 4:

The economies of most of the source countries are still not sufficiently developed to produce, even with significant U.S. aid, enough jobs over the short-term to match their rapidly growing work force. Over the longer term, however, I believe that marked improvement in source countries' economies are achievable by their own efforts with support from the United States.

He also said:

I welcome the economic development efforts now being made by the dynamic and competent leaders of Mexico. To further efforts such as those, the United States is committed to helping source countries' means of providing such assistance. In some cases, this will mean bilateral or multilateral economic assistance.

In the short run, external assistance either from the United States or the international financial institutions is unlikely to have a major effect in reducing illegal immigration from Latin America—the level of which has not been, as you pointed out, accurately determined.

In the long term, assistance directed toward increasing rural employment opportunities, particularly in Mexico, will have a more positive effect in reducing the economic incentives to emigrate. However, the task will not be easy.

The United States has encountered considerable difficulty in its efforts to reduce unemployment. The problems of reducing unemployment and raising the standard of living in Mexico are even more formidable.

A discussion of the character of migration across national frontiers in Latin America may shed some light on the complexity of this problem.

Over the last two decades, Latin America has become a region of net outward migration. Additionally, migration among countries within the region—previously very small—has increased considerably.

The flow of migration from Latin America to the rest of the world and the currents from one country to another both are made up of very different types of migrants.

The most numerous category is that of "unskilled workers." This group comes mainly from the rural poor of countries with high underemployment. These people move directly across land frontiers seeking work, mainly in agriculture, construction, and domestic services.

The main movements within Latin America of this type are from Bolivia, Chile, and Paraguay into Argentina; from Colombia into Venezuela and Panama; and from El Salvador into Honduras. By far the largest movement of this category of migrants is from Mexico to the United States.

The main attraction of the United States for the unskilled migrant is the higher level of U.S. wages. A typical worker can earn more in 3 months in the United States than he can in a year in Mexico.

Recent studies indicate that the vast majority of these unskilled migrants do not consider staying permanently in the United States. They come to work temporarily—usually for periods of 4 to 6 months—and then return to their home communities. Credence to this finding is given by an understanding of the nature of traditionally strong Mexican family ties. I might add that those of us that understand this, that there is an exceptionally strong pull to return to the home, and to use the stay in the United States as a means of capital formation to take money back with them to improve the home state.

A crucial factor in this migration is, of course, the general economic situation within Mexico. Historically, sharp increases in the rate of migration to the United States resulted after severe drought, flooding, or other adverse conditions which affect agriculture in Mexico.

Mexico's high levels of unemployment and underemployment, as I have previously suggested, contribute to migrant flows. However, empirical research indicates that it is not just the lack of jobs, but the lack of "steady," relatively "well-paid" jobs, which fuels migration.

The consensus of scholarly opinion is that large wage differentials are more important than simply the level of unemployment in Mexico in promoting migration of temporary workers to the United States.

Now, a different category of migrant are those "skilled and semi-skilled workers" who seek various kinds of urban employment, who move on a more limited scale to a wide variety of destinations. They are not concentrated in border areas as are most of the unskilled. These migrants are far more likely to become permanent residents of the United States than the unskilled workers. However, I should note that this group primarily is comprised of migrants from source nations other than Mexico.

Of course, substantial numbers of Mexican illegals do become permanent residents of the United States, either by blending into predominantly Mexican-American neighborhoods or by eventually legalizing their status.

Again, empirical research indicates that they are outnumbered—probably by a margin of about 10 to 1—by illegals who maintain a pattern seasonal of or "shuttle" border migration.

Migrants in the skilled category are much more likely to speak English, have more formal education, and hence are less likely to be detected by the Immigration and Naturalization Service.

The third, and presumably the smallest, group of illegal migrants are those who come for "sociopolitical" reasons. This group originates mainly in the urban middle class. Movements in this class include persons suffering from some degree of discrimination either because of lack of adequate educational opportunities, access to public or private employment, or because of economic insecurity, or the incompatibility of their values with those dominant at home.

Now, there are several myths which have grown up concerning the character of illegal aliens. David S. North of the Center for Labor and Migration Studies has examined some of these myths and has concluded the following: Illegal aliens are a more polyglot and sexually integrated population than is generally realized. That is, illegals are not primarily young men from Mexico.

The principal impact of illegals on American life is to depress the labor market through acceptance of low-paying jobs. Illegals are net contributors to the U.S. Treasury in that through automatic payroll deductions they pay taxes and make social security payments but they seldom take welfare payments, due to a reluctance to become enmeshed in a bureaucratic structure which they fear could lead to detection by the authorities. I might say, parenthetically, I have seen estimates as high as 25 to 1 on that ratio of contribution to payments.

Now, as can be seen from this short discussion, illegal migrants are not a monolithic group. They cross national borders to satisfy a wide variety of goals.

They are impelled by many different motivations. The problem is too large, too complex, and has existed far too long to permit simple, painless solutions.

The flow of illegal aliens is likely to continue in the foreseeable future, no matter what measures are taken. However, the rate of this flow depends in part on whether adequate steps to create attractive alternatives to migration can be taken within Mexico and other source countries.

Assistance from the United States and other donors, including the IFI's, can provide help to the efforts of source countries to deal with the factors which stimulate emigration.

For instance, the Mexican Government has requested the assistance of the World Bank to devise programs for channeling more credits and other forms of help to small and medium-sized industries in that country.

This is in an effort to reorient their development policies more toward small-scale, labor-intensive rural industrialization. A bank mission visited Mexico in October 1976 to survey the whole small and medium-scale sector and to analyze the operations of existing financial institutions. The mission has proposed a project for expanding credits to smaller industries linked to a program of technical assistance.

While programs like this are a step in the right direction, Mexico's demographic position may vitiate the benefits they can bring. About 700,000 to 800,000 new workers will enter the labor force annually over the next 15 to 20 years.

According to World Bank estimates, even if Mexico could quickly resume its historically high rate of economic growth—about 6 percent—the economy would absorb only about half the new entrants to the labor force.

More recently, economic literature has suggested that "intermediate" or "appropriate" technologies could be used to create more labor-intensive development.

However, it is difficult for development banks to design projects using "appropriate"—I put that in quotes, "appropriate"—technologies when such alternatives are by no means obvious, and usually do not exist in forms ready for immediate application.

These technologies are new and innovative, therefore they entail a higher level of risk than proven industrial designs and techniques. Experienced bankers are, and I might say properly, somewhat reluctant to place excessive reliance on these concepts.

In closing, I would like to reiterate that it is really the source countries—as Mr. Nachmanoff has indicated—who must take the lead in solving their basic structural problems—problems such as maldistribution of income, high population growth, and low rural productivity.

However, we believe the international financial institutions can assist these efforts toward improving overall economic conditions, and by so doing reduce the pressure for emigration.

[Mr. Arellano's prepared statement on behalf of the State Department follows:]

STATEMENT BY RICHARD G. ARELLANO
DEPUTY ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT
INSTITUTIONS AND FINANCE OF THE COMMITTEE ON BANKING
FINANCE AND URBAN AFFAIRS
September 14, 1977 at 10:00 A.M.

Thank you, Mr. Chairman, for this opportunity to appear before you and your Sub-committee to testify on the problem of illegal migrants to the United States.

At present the problem of undocumented aliens is the most important and the most serious which we have with Mexico. From the U.S. domestic point of view, it is charged that illegal immigration from Mexico exacerbates our own unemployment problem, depresses wages, puts a drain on our social welfare program, and results in a considerable public expenditure for policing the border and apprehension of illegals and represents a drain of foreign exchange through remittances.

From the Mexican viewpoint illegal immigration is a "safety valve" for the Mexican economy which relieves the pressures created by its domestic unemployment and the lack of development in its rural areas. In this context the Mexicans view the problem of undocumented workers as a mutual one which must be solved through joint effort with the United States, rather than merely through unilateral sanctions and regulations by the United States

which would treat the illegals as criminals. Until we are able to solve this problem amicably and cooperatively with Mexico, it will be a festering sore which will adversely affect the totality of our bilateral relations with Mexico and less directly the other nations of Latin America which depend on emigration to the United States to relieve their unemployment pressure.

As the President said in his message to Congress August 4, "...the economies of most of the source countries are still not sufficiently developed to produce, even with significant U.S. aid, enough jobs over the short-term to match their rapidly growing workforce....Over the longer-term, however, I believe that marked improvements in source countries' economies are achievable by their own efforts with support from the United States." He also said, "I welcome the economic development efforts now being made by the dynamic and competent leaders of Mexico. To further efforts such as those, the United States is committed to helping source countries' means of providing such assistance. In some cases, this will mean bilateral or multilateral economic assistance."

In the short run, external assistance either from the United States or the International Financial Institutions

is unlikely to have a major effect in reducing illegal immigration from Latin America--the level of which has not been accurately determined. In the long-term, assistance directed toward increasing rural employment opportunities, particularly in Mexico, will have more positive effects in reducing the economic incentives to emigrate. The United States has encountered considerable difficulty in its efforts to reduce unemployment. The problems of reducing unemployment and raising the standard of living in Mexico are even more formidable.

Discussion of the character of migration across national frontiers in Latin America may shed some light on the complexity of this problem.

Over the last two decades, Latin America has become a region of net outward migration. Additionally, migration among countries within the region, previously very small, has increased considerably. The flow of migration from Latin America to the rest of the world and the currents from one country to another both are made up of very different types of migrants.

The most numerous category is that of unskilled workers. This group comes mainly from the rural poor of countries with high underemployment. These people move directly

across land frontiers seeking work, mainly in agriculture, construction and domestic service. The main movements within Latin America of this type are from Bolivia, Chile, and Paraguay into Argentina; from Colombia into Venezuela and Panama; and from El Salvador into Honduras. By far the largest movement of this category of migrants is from Mexico to the United States.

The main attraction of the United States for the unskilled migrant is the higher level of U.S. wages. A typical worker can earn more in three months in the U.S. than he can in a year in Mexico. Recent studies indicate that the vast majority of these unskilled migrants do not consider staying permanently in the U.S. They come to work temporarily--usually for periods of four to six months--and then return to their home communities. Credence to this finding is given by an understanding of the nature of traditionally strong Mexican family ties.

A crucial factor in this migration is, of course, the general economic situation within Mexico. Historically, sharp increases in the rate of migration to the U.S. have resulted after severe drought, flooding, or other adverse conditions affecting agriculture in Mexico.

Mexico's high levels of unemployment and under-employment, as I have previously suggested, contribute to migrant flows; however, empirical research indicates that it is not just the lack of jobs, but the lack of steady, relatively well-paid jobs, which fuels migration. The consensus of scholarly opinion is that large wage differentials are more important than simply the level of unemployment in Mexico in promoting migration of temporary workers to the U.S.

A different category of migrant, are those Skilled and semi-skilled workers seeking various kinds of of urban employment, who move on a more limited scale to a wide variety of destinations; they are not concentrated in border areas, as are most of the unskilled. These migrants are far more likely to become permanent residents of the U.S. than the unskilled workers. However, I should note that this group primarily is comprised of migrants from source nations other than Mexico.

Of course, substantial numbers of Mexican illegals do become permanent residents of the U.S., either by blending into predominantly Mexican-American neighborhoods or by eventually legalizing their status.

But empirical research indicates that they are outnumbered--probably by a margin of about 10 to 1-- by illegals who maintain a pattern of seasonal or "shuttle" border migration.

Migrants in the skilled category are much more likely to speak English, have more formal education, and hence, are less likely to be detected by the Immigration and Naturalization Service.

The third and presumably smallest group of illegal migrants are those who come for socio-political reasons. This group originates mainly in the urban middle-class. Movements in this class include persons suffering from some degree of discrimination either because of lack of adequate educational opportunities, access to public or private employment, because of economic insecurity, or the incompatibility of their values with those dominant at home.

There are several myths which have grown up concerning the character of illegal aliens. David S. North of the Center for Labor and Migration Studies has examined some of these myths and has concluded the following: Illegal aliens are a more polyglot and sexually integrated population than is generally

realized (i.e. illegals are not primarily young men from Mexico); the principal impact of illegals on American life is to depress the labor market through acceptance of low paying jobs; and illegals are net contributors to the U.S. Treasury in that through automatic payroll deduction they pay taxes and make social security payments but they seldom take welfare payments due to a reluctance to become enmeshed in a bureaucratic structure which they fear could lead to detection by the authorities.

As can be seen from this short discussion, illegal migrants are not a monolithic group. They cross national borders to satisfy a wide variety of goals. They are impelled by many different motivations. The problem is too large, too complex and has existed far too long to permit simple, painless solutions. The flow of illegal aliens is likely to continue in the foreseeable future no matter what measures are taken. However, the rate of this flow depends in part on whether adequate steps to create attractive alternatives to migration can be taken within Mexico and other source countries. Assistance from the US and other donors, including the IFI's, can provide help to the efforts of source countries

to deal with the factors which stimulate emigration.

For instance, the Mexican government has requested the assistance of the World Bank to devise programs for channeling more credits and other forms of help to small and medium industries in that country. This is in an effort to reorient their development policies more toward small-scale, labor-intensive rural industrialization. A Bank mission visited Mexico in October 1976 to survey the whole small and medium scale sector and analyze the operations of existing financial institutions. The mission has proposed a project for expanding credits to smaller industries linked to a program of technical assistance.

While programs like this are a step in the right direction, Mexico's demographic position may vitiate the benefits they can bring. About 700,000 to 800,000 new workers will enter the labor force annually over the next 15 to 20 years. According to World Bank estimates, even if Mexico could quickly resume its historically high rate of economic growth (about 6 percent), the economy could absorb only about half the new entrants.

Recent economic literature has suggested that "intermediate" or "appropriate" technologies could be used to

create more labor-intensive development. However, it is difficult for development banks to design projects using "appropriate" technologies when such alternatives are by no means obvious and usually do not exist in forms ready for immediate application. These technologies are new and innovative; therefore, they entail a higher level of risk than proven industrial designs and techniques. Experienced bankers are, properly, somewhat reluctant to place excessive reliance on these concepts.

In closing, I would like to reiterate that it is really the source countries who must take the lead in solving their basic structural problems; problems such as maldistribution of income, high population growth, and low rural productivity. However, we believe the International Financial Institutions can assist these efforts toward improving overall economic conditions and, by so doing, reduce the pressure for emigration.

Chairman GONZALEZ. Thank you, sir.
Mr. Fried?

**STATEMENT OF EDWARD R. FRIED, U.S. EXECUTIVE DIRECTOR,
WORLD BANK**

Mr. FRIED. In these brief introductory comments, Mr. Chairman, I propose to outline trends in World Bank lending to Mexico, to describe briefly the Bank's pioneering work in encouraging rural development, and to indicate some potentialities for the future.

My main theme will be, first, to stress what my colleagues have already emphasized—namely, that there are no "quick fixes" to the problem of checking illegal immigration, just as there are no quick fixes to solving the problems of absolute poverty anywhere. And, second, to urge, nonetheless, that the sooner that programs to improve the conditions of the rural poor in Mexico, as well as in the other source countries, can be accelerated through whatever means the sooner it might be possible to get some grip on the illegal immigration problem confronting the United States.

Since the early 1950's, the World Bank has made 47 loans to Mexico totaling almost \$3 billion, which has amounted to about 7 percent of total Bank lending.

Over the years, a marked shift in the direction of this lending has taken place: From an early concentration on heavy industry and infrastructure—power and electric capacity, railways and ports; to the more recent emphasis on agriculture, water supply, and small-scale industry.

Increasingly, the Bank has been concentrating its efforts on employment-intensive, rather than capital-intensive projects, with the goal of generating the maximum number of jobs from its capital resources.

At present the benchmark for Bank lending to Mexico is about \$500 million a year. And, of this total, about two-thirds is destined for agriculture, rural development, and medium- and small-scale industry.

In general, the Bank finances about one-third of the cost of the projects it supports in Mexico, the rest coming mainly from domestic savings.

Mexico's efforts to develop its rural areas in recent decades have been concentrated on expanding agricultural production and consolidating land reform through the further distribution of arable and pasture acreage to landless farmers. Agricultural production did indeed more than triple between 1940 and 1965, principally because of the expansion of large-scale irrigation, the increasing use of fertilizers and pesticides, the provision of better seed strains, and improved farm-to-market transport. Nonetheless, income inequality widened in the rural areas, because the economy could not provide adequate employment opportunities for the poorer sectors of the rural population, particularly those living in rainfed areas.

The grim facts are that some 2 million rural farm families, or 15 to 20 percent of Mexico's total population, have per capita incomes of only \$100 to \$150 per year, and the number is growing.

The lack of employment opportunities and social services have caused workers from these families to migrate on a massive scale, most of them to urban areas of Mexico but also to seek employment in the United States.

In response to this growing concentration of rural poverty, the Mexican Government in the early 1970's began to reassess its development strategy. The World Bank, as part of this reassessment, worked with the Government to organize an integrated rural development program designed to secure the wider participation of the rural poor in the market economy, to expand agricultural production, to improve income distribution, and generally to encourage greater social stability. The heart of this effort is the PIDER programs, but it also includes additional irrigation projects, investment in small- and medium-scale industry and agricultural credits. Altogether, public investment in agriculture now amounts to \$1 billion a year, and this represents one-fourth of total public investment—a proportion that has doubled in the past 5 years.

The rural development program, in which the World Bank and IDB are heavily involved, is of special interest. The objective of these programs is to concentrate on individual microregions, each containing approximately 50,000 rural poor in areas that have some potential for greater productive activity, employment and income.

A new coordinated investment program is being developed for each of these regions. It seeks to bring together in one package improved small-scale irrigation, extension services, credit, marketing facilities, health, education, water supply, and electricity. In addition, the project includes experimental work to encourage the formation of small-scale rural industries.

Thus far, programs have been developed for 86 of these microregions covering a rural population of some 4 million people. The total investment for these regions will be about \$1 billion, of which the World Bank will supply \$230 million.

Of this amount, \$110 million was committed in a loan made in May 1975 and \$120 million in a loan made in May 1977. The IDB has provided additional financing, which I'm sure Mr. Dungan will describe, and of course a major part of the funds is being provided by the Mexican Government.

Now, this is clearly a new program which will take time to get into full gear. There are substantial risks for any program that seeks to mobilize self-help efforts on a local, communitywide basis, in areas where natural endowments are usually below average. Social and institutional change have to take place in the face of deep-seated obstacles; administrative and technical capacities have to be built up and consolidated. If the programs get substantially ahead of the development of such capabilities, waste will result—and even more important, disillusionment will set in.

If all goes well, these projects will achieve a satisfactory economic rate of return, and a substantial number of new jobs will be created. On the average, the direct effects of these programs could increase the income of the rural poor by at least 50 percent, and the indirect or multiplier effects by much more. Incomes would continue to be very low, but concrete prospects for improvement would replace what presently must be a widespread feeling of despair.

These programs—I have to emphasize—will take 8 to 10 years to complete. But in the meanwhile aspirations should be on the rise.

What more could be done in this general area? The answer generally is that a good deal more could be done. And, indeed, the Mexican Government has made agricultural improvement a top priority—and this includes improvement in the conditions of the rural poor.

It may be useful for me to speculate on some of the theoretical possibilities. To cover all areas of rural poverty in Mexico, it would be necessary to develop PIDER programs for some 300 microregions. In some cases, the technical possibilities simply would be too poor to justify going ahead, but for most regions, programs—or new programs—would be feasible. The total cost to cover the country would be on the order of \$4 or \$5 billion.

A program to step up small-scale irrigation would cost perhaps \$1 billion over 5 years. Such a program, if successful, could triple incomes on small farm holdings, and also provide—by definition—much greater employment opportunities from more intensive and more productive agriculture.

Programs to benefit rainfed agriculture and to expand rural industries could also be accelerated, but it must be also emphasized that the potentialities here are less well established, and the risks proportionately greater.

The major constraints in all these programs are administrative: They simply take a long time to develop. But, capital is also a problem. The World Bank is prepared to do more in this area, and to continue to help the Mexican Government to innovate new rural development strategies, and I'm sure that new programs will be developed. The Mexican Government has given these programs top priority, but is itself under pressure to contain its public expenditures so as to reestablish the foundation for high sustained economic growth.

Hence, there is reason for Mexico to explore new areas of financial cooperation, both with the international financial institutions and with the United States.

In closing, I would emphasize again that the alleviation of rural poverty in Mexico is a long-term endeavor, and there can be no assurance that it will substantially reduce the flow of illegal immigration into the United States.

Such evidence as there is, however—and simple intuition—would at least suggest that people prefer to stay within their native cultural environments rather than risk the strange and the unknown.

Mr. Arellano emphasized this in pointing to the pressures, the desire in Mexico—the strong desire in Mexico—to maintain traditional ties.

Mass migration is more the product of desperation than anything else. The alleviation of the worst aspects of poverty, and the beginnings of hope in the rural areas, therefore should at least reduce the pressures to leave.

Thank you, Mr. Chairman.

[Mr. Fried's prepared statement on behalf of the World Bank follows:]

STATEMENT BY EDWARD R. FRIED
U.S. EXECUTIVE DIRECTOR,
WORLD BANK
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT
INSTITUTIONS AND FINANCE OF THE COMMITTEE ON BANKING
FINANCE AND URBAN AFFAIRS
September 14, 1977 at 10:00 A.M., EST

In these brief introductory comments, I propose to outline trends in World Bank lending to Mexico, to describe briefly the Bank's pioneering work in encouraging rural development, and to indicate some potentialities for the future. My main theme will be, first, to stress what my colleagues have already emphasized--namely, that there are no quick fixes to the problem of checking illegal immigration, just as there are no quick fixes to solving the problems of absolute poverty--and second, to urge, nonetheless, that the sooner that programs to improve the conditions of Mexico's rural poor can be accelerated, through whatever means, the sooner it might be possible to get some grip on the illegal immigration problem confronting the United States.

World Bank Lending to Mexico

Since the early 1950's, the World Bank has made 47 loans to Mexico totaling almost \$3 billion, which has amounted to about 7% of total Bank lending. Over the years a marked shift in the direction of this lending has taken place, from an early concentration on heavy industry and infrastructure (power, railways and ports) to the more recent emphasis on agriculture, water supply and small-scale industry. Increasingly, the Bank has been concentrating its efforts on employment-intensive rather than capital-intensive projects, with the goal of generating the maximum number of jobs from its capital loans. At present the benchmark for Bank lending to Mexico is about \$500 million a year,

and of this total, about two-thirds is destined for agriculture, rural development, and medium and small-scale industry. In general, the Bank finances about one-third the cost of the projects it supports in Mexico, the rest coming mainly from domestic savings.

Rural Development Programs

Mexico's efforts to develop its rural areas in recent decades have been concentrated on expanding agricultural production and consolidating land reform through the further distribution of arable and pasture acreage to landless farmers. Agricultural production did indeed more than triple between 1940 and 1965, principally because of the expansion of large-scale irrigation, the increasing use of fertilizers and pesticides, the provision of better seed strains and improved farm-to-market transport. Nonetheless, income inequality widened in the rural areas because the economy could not provide adequate employment opportunities for the poorer sectors of the rural population, particularly those living in rainfed areas.

The grim facts are that some 2 million rural farm families, or 15-20% of Mexico's total population, have per-capita incomes of only \$100 to \$150 a year, and the number is growing. The lack of employment opportunities and social services have caused workers from these families to migrate on a massive scale, mostly to urban areas in Mexico but also to seek employment in the United States.

In response to this growing concentration of rural poverty, the Mexican Government in the early 1970's began to reassess its development strategy. The World Bank as part of this reassessment worked with the Government to organize an integrated rural development program designed to secure the wider participation of the rural poor in the market economy, expand

agricultural production, improve income distribution, and encourage greater social stability. The heart of the effort is the PIDER programs, but it also includes additional irrigation projects, investment in small- and medium-scale industry and agricultural credits. Altogether, public investment in agriculture now amounts to \$1 billion a year. This represents one-fourth of total public investment, a proportion that has doubled in the past five years.

The rural development program, in which the World Bank and the IDB are heavily involved, is of special interest. The objective of these programs is to concentrate on individual micro-regions, each containing approximately 50,000 rural poor in areas that have some potential for greater productive activity, employment and income. A new coordinated investment program is being developed for each of these regions. It seeks to bring together in one package improved small-scale irrigation, extension services, credit, marketing facilities, health, education, water supply and electricity. In addition, the project includes experimental work to encourage the formation of small-scale rural industry.

Thus far, programs have been developed for 86 micro-regions covering a rural population of some 4 million people. The total investment for these regions will be about \$1 billion, of which the World Bank will supply \$230 million. Of this amount, \$110 million was committed in a loan made in May 1975 and \$120 million in a loan made in May 1977. The IDB has provided additional financing and of course the major part of the funds is being provided by the Mexican Government.

This is clearly a new program which will take time to get into full gear. There are substantial risks for any program that seeks to mobilize self-help efforts on a local, community-wide basis, in areas where natural endowments are usually below average. Social and institutional change have to take place in the face of deep-seated obstacles; administrative and

technical capacities have to be built up and consolidated. If the programs get substantially ahead of the development of such capabilities, waste will result, and even more important, disillusionment will set in.

If all goes well, these projects will achieve a satisfactory economic rate of return and a substantial number of new jobs will be created. On the average, the direct effects of these programs could increase the income of the rural poor by at least 50% and the indirect or multiplier effects by much more. Incomes would continue to be very low, but concrete prospects for improvement will replace what presently must be despair. These programs will take eight to ten years to complete but in the meanwhile aspirations would be on the rise.

Potentialities for Expansion

Could more be done in this general area? The answer is clearly yes, and indeed the Mexican Government has made agricultural improvement a top priority and this includes improvement in the conditions of the rural poor.

It may be useful for me to speculate on some of the theoretical possibilities. To cover all areas of rural poverty, it would be necessary to develop PIDER programs for some 300 micro-regions. In some cases, the technical possibilities simply would be too poor to justify going ahead, but for most regions, programs would be feasible. The total cost to cover the country would be on the order of \$4-5 billion.

A program to step up small-scale agriculture could cost perhaps \$1 billion over five years. Such a program, if successful, could triple incomes on small farm holdings and also provide greater employment opportunities.

Programs to benefit rainfed agriculture and to expand rural industries could also be accelerated, but it must also be emphasized that the potentialities here are less well-established and the risks proportionately greater.

The major constraints in all these programs are administrative: they simply take a long time to develop. But capital is also a problem. The World Bank is prepared to do more in this area and new programs undoubtedly will be developed. The Mexican Government has given these programs top priority but is itself under pressure to contain its public expenditures so as to re-establish the foundation for high sustained economic growth. Hence there is reason for Mexico to explore new areas of financial cooperation both with the international financial institutions and with the United States.

In closing, I would emphasize again that the alleviation of rural poverty in Mexico is a long-term endeavor and there can be no assurance that it will substantially reduce the flow of illegal immigration into the United States. Such evidence as there is, and simple intuition, would at least suggest that people prefer to stay within their native cultural environment rather than risk the strange and the unknown. Mass migration is more the product of desperation than anything else. The alleviation of the worst aspects of poverty and the beginnings of hope in the rural areas, therefore, should at least reduce the pressures to leave.

Mr. HANNAFORD. Mr. Chairman, I would like to ask a question, since Mr. Tsongas is no longer here.

Chairman GONZALEZ. Certainly.

Mr. HANNAFORD. You are talking about relieving rural poverty, and that seems to me to have a conflict as to whether you try to produce subsistence farms of a sort of "homestead" nature—which would be labor intensive—or are you trying to produce efficient farms of a larger capital investment for international trade?

What direction are you going in?

Mr. FRIED. The emphasis of these programs, of the new programs, Mr. Hannaford, is to develop and expand small-scale farming. This would have an effect, in expanding agricultural production, to some extent some of this production might well go into exports. We should recognize the consequences of this, as far as international trade is concerned. But, this whole new emphasis is on changing the prospects in the rural areas among the poorest people. And this means: production, social services, and everything else.

Mr. HANNAFORD. I have seen this problem in other Latin American countries, where the small farm, of course, is a beautiful picture in keeping the people down on the farm in labor-intensive kinds of development, but then marketing is a problem in terms of getting anything sold out there.

Mr. FRIED. May I just add—I would like to emphasize, again, if I have not made the point clear—that the whole rationale for these programs is to produce a package that combines credit, improved marketing techniques, and provides greater productivity as well as improving social services.

Mr. DUNGAN. I would just like to piggyback, Mr. Hannaford, if I may.

I think it would be a wrong impression if anyone believed that the PIDER programs, or any of these rural development programs, concentrate on small holdings. Many of these are organized on a communitarian basis, so that you don't necessarily have a small plot—which would be inefficient and which would not have marketing, credit, or other facilities.

It would be a disaster if the international institutions, or the Mexican Government began emphasizing subsistence farming. That is not the name of the game here. And I think actually the difficulty of working out some of these new structural reforms by which one organizes these microdistricts to which Mr. Fried referred, is really one of the challenges that faces the World Bank, as well as the Inter-American Bank.

Mr. HANNAFORD. I assume you have private production in communal facilities?

Mr. DUNGAN. Precisely.

Mr. FRIED. I might add—and this, I think, is relevant to the general and very important question you are raising—as these things are reckoned, the Bank estimates that the economic rate of return on these funds might be something over 20 percent. I didn't want to state them because I think that they are rather speculative. I don't think that we should exaggerate the possibilities. But, these programs are designed on the basis, and on the assumption, that they are economic programs as

well as having substantial social benefits. So far, in the limited experience that we have had, this has turned out to be true.

Mr. HANNAFORD. That is interesting. Well, Mexico certainly has so much that we need that could be developed, and it seems to me there is great economic opportunity there.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, sir.

Mr. Dungan?

STATEMENT OF RALPH DUNGAN, EXECUTIVE DIRECTOR FOR THE UNITED STATES, INTER-AMERICAN DEVELOPMENT BANK

Mr. DUNGAN. Well, Mr. Chairman, my colleagues, as usual, have been so eloquent and comprehensive in their testimony that there remains very little for me to add.

I think Mr. Fried's presentation, particularly, demonstrates that there has been thoughtful input not only by the World Bank but also the Inter-American Bank, and very close collaboration in the lending programs with the Government of Mexico.

I do have some information here about the lending program in the Inter-American Bank which will substantiate the point that Mr. Nachmanoff made earlier, that the Inter-American Bank has put about 60 percent, more or less, of its \$500 million a year lending program into the agricultural sector, and some of it in other kinds of activities which have the effect of creating employment in light industry, and so forth.

This is all being coordinated very carefully with the Mexican Government's program which, as Mr. Fried suggested, has turned around in the last couple of years.

I think it's very important, however, to put the caveats in—as each of my colleagues has suggested—so that we get a balanced picture.

The rural development program is long term; it is high risk, and, the effectiveness of some of the effort that we're making has yet to be tested. In the Inter-American Bank, for example, we are precisely setting about now to take a look at how effective this "integrated rural development program" has been—we are attempting to monitor the effort very closely.

So, I think as Mr. Fried pointed out, this effort, substantial as it is, is not going to solve the problem of illegal migration. That is not to say, however, that one shouldn't continue it and increase it. I think, myself, that we also have to take a look at some things that might be considered on the periphery, which we have not discussed.

For example, colonization schemes within Latin America, to the advantage of the receiving countries as well as the labor-surplus countries. And, frankly, I believe that despite the efforts that have been made by both private- and public-sector operations, we have very much more to do in the way of family planning than we have done to date. We, meaning the United States and the international agencies, have been in the development business now for several decades and the population growth rate such as one has in Mexico is not very good testimony to the effectiveness of either that Government's or the international efforts bilateral and multilateral, that have been made to date.

So, I would simply say that we should continue to do the kinds of things we are doing, explore some things like colonization even when they seem somewhat far-out, and I think rather appropriately at this point continue to recognize that the support of the international financial institutions—forgive the slight pitch—is critically important in the United States self interest.

In other words, you can't continue this level of activity in Central America, the Caribbean, and other developing countries on good will. You need hard cash.

I thank you very much, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Dungan.

It wasn't touched on, but apparently the Caribbean is second only to Mexico as a source of illegals. Can you tell us anything about the action of the Bank or the programs with respect to the Caribbean?

Ambassador Andrew Young just recently completed a tour. Should we be more directly involved in the Caribbean Development Bank?

I know that a couple of the agencies have helped to fund the Bank, but should we belong to it and give it further impetus?

Mr. ARELLANO. Mr. Gonzalez, I would like to respond to that. The Department of State, along with the Treasury and a number of other agencies, have been given very recently the task to form the Caribbean task force study force in which we are reexamining our, I should say "lack of policy," really, towards this area, in order to come up with a more coherent policy of the United States and other possible donor nations to the Caribbean.

Now, within this context, obviously the international financial institutions—which would include the Caribbean Development Bank, the Inter-American Development Bank—are going to be important actors. And we do intend to not only solicit but actively involve them in this task force.

Mr. DUNGAN. I would like to add a comment, Mr. Chairman, on that.

Your question about the Caribbean nations, and particularly the non-Spanish-speaking nations—the English-speaking islands—demonstrates the complexity of the problem. In certain nations or territories in the Caribbean the potential for development is rather limited. In some islands, for instance, there appears to be a question about the availability of sufficient arable land to provide for the food needs of the population.

So, I think the programmatic approach in certain parts of the Caribbean will be entirely different than what it might be, for example, in Haiti or the Dominican Republic, or Mexico, or El Salvador, or Guatemala, or any other countries that have other potentials to exploit.

I think this area presents a very thorny problem and there seems to be little doubt that closer economic integration will be essential. Relatively speaking, the amount of migration is substantially smaller, obviously, than it is from Mexico. Nevertheless, it's a difficult problem.

Mr. HANNAFORD. Have our efforts been directed in any measure toward tourism, second homes, retirement communities, things of that sort that could create opportunities?

Mr. DUNGAN. Some tourism, although with very, very careful restraints. As a matter of fact, in the Inter-American Bank just last

week we were revising and strengthening our tourism policy. The question is, to what extent is multinational lending justified to build hotels and otherwise support tourism, where tourism is a major exploitable resource? Retirement homes, as far as I recall nothing.

Mr. HANNAFORD How's it going along the west coast?

Mr. DUNOAN. This is an area, Congressman, where we think private capital is much more appropriate, when available, than the semi-public or the public capital would be. I think the IFI's should be providing support which would stimulate and facilitate the flow of private capital. At least that's our attitude.

Mr. HANNAFORD. Each time I see a new report on the oil and gas discoveries, they have doubt'ed. It looks like this could have enormous impact on capital accumulation that could do far more than all of our efforts at encouraging—

Mr. NACHMANOFF. This is certainly true, Mr. Hannaford, that the potential revenues to be derived from gas and oil are very substantial, and of course would help tremendously in strengthening the Mexican economy.

However, it will be a period of years before that stream of revenue increases substantially. During this interim period, at least, there is a continuing need for private capital flows and assistance through the international financial institutions.

Mr. HANNAFORD. What is the latest estimate? Nine billion barrels, or something like that?

Mr. NACHMANOFF. I don't have that figure with me.

Mr. FRIED. I think this is an important point, Mr. Hannaford, and I would like to elaborate on it a bit. It is rather critical, as a matter of fact.

The estimate of proven reserves in Mexico is, as you have said, going up. They are obviously very large. I think the most solid estimates now suggest that by the beginning of the 1980's, say in 5 years, Mexico will be exporting something over 1 million barrels a day.

Now, let us put that in money. That would mean that by that time the additional revenues, the additional foreign exchange that Mexico would be receiving from oil over what it receives now—it is exporting about 100,000 barrels now—would be on the order of \$5 billion a year. Let's say roughly, taking costs out, that would mean incremental resources of \$4 billion a year.

Now, it seems to me that we should have this very much in mind as we think about present programs. While these additional funds won't solve Mexico's problems, they represent, in effect, the kind of foundation that suggests that Mexico should be doing more now, since it will be able to finance any additional debt, the obligations, not so long from now.

To give you some perspective, \$4 to \$5 billion a year represents fully half of Mexico's total investment today. And this is a big country—\$10 billion in investments.

What this suggests to me is that the Mexicans should be moving much more rapidly now on programs to deal with rural poverty; and the international financial institutions, as well as the United States, should be thinking about possible means of helping them, to tide them over this transitional period so that such programs can begin all the sooner.

We have to remember that if you save 5 years, or 10 years, in greatly expanding this kind of effort, you save, in many respects. You greatly improve possibilities for reducing population growth, and you get that much sooner to the point where you're increasing hopes in the rural areas.

Mr. HANNAFORD. Mortgage future income.

Mr. FRIED. Exactly. And Mexico is in a unique position to move in that direction.

Mr. HANNAFORD. Is it socially or politically possible to check this rampant population growth in Mexico?

Can anyone answer that question?

Mr. FRIED. Interestingly enough—

Mr. HANNAFORD. It is a permanent problem, as long as we have this kind of population growth.

Mr. FRIED. Right.

I don't know if Mr. Dungan has any further information. I was checking on this. Some of the bank people tell me that there is indeed fairly solid evidence that the rate has gone down from 3.6 to 3.2 percent over the past few years.

Now, that rate is tremendous, but if in fact the trend is true, the rate of decline is also very great. And I think that all of the work that's now going on in the area of population suggests that the biggest single fact to getting that rate down is what happens to incomes in the poorest areas.

So, it's not only family planning; it is changing the outlook of the poorest people on what their expectations would be. And that is why, if we get going sooner rather than later, we can affect the ultimate size of Mexico's population.

If we don't, the prospect—as you all probably know—is that in another 50 years there will be 175 million people in Mexico, compared to the present 60 million.

Mr. ARELLANO. Mr. Hannaford, it does appear that, as Mr. Fried suggests, this is in large measure a matter of changing perceptions and attitudes.

I remember that Prof. Eric Zimmerman, at the University of Texas—a very famous professor of resources—used to say, when he was discussing demographic policies, that there came a time in demographic cycles when the people preferred “baby grands” to “grand babies.”

This is what I think we're talking about. We are talking about aspirations, in terms of income policies and so on.

Mr. FRIED. I might add, Mr. Chairman, on this rather critical point, that I think as Mr. Nachmanoff pointed out, there has been a very impressive turnaround in the attitude of the Mexican Government itself. And now they're positively pursuing greater family planning.

The Bank has had a project, which has been appraised and ready to go, to help Mexico's population program—a matter of some \$50 million.

Chairman GONZALEZ. That is a very sensitive problem for the Government—much more than it would be, perhaps, to the average other government. So I can understand that. But I'm glad to hear that there is a reported change of governmental attitudes.

Yes, sir?

Mr. NACHMANOFF. Mr. Chairman, just to give you some indication of that, it's our understanding that the Mexican Government's family planning program is—according to some of the experts in this field—one of the most comprehensive ever designed. It calls for the expenditure of about \$250 million over the next 5 years, and they are hoping to reduce the rate of the population growth of 2.5 percent by 1982. So, they are certainly targeting very ambitious goals.

Mr. HANNAFORD. As conditions improve, sometimes fertility improves also. You can't win.

Mr. FRIED. No; I think the relationship is the other way.

Mr. HANNAFORD. The other way around?

Mr. FRIED. That is the point. At least the research that has been done for the past 10 years or so, suggests the contrary, as incomes rise the population growth rate does go down.

Mr. HANNAFORD. Thank you.

Mr. ARELLANO. It appears to me, in the early phases as you indicated, Mr. Hannaford, as you have public health programs that come on-stream, and so on, that mortality and morbidity rates move downward. Then, you do have increase in rates of growth of the population, which is precisely what is happening in Mexico.

But then, as time goes on, as attitudes change as we have here in the United States now, it tends to move backward—that is the rate of growth of the population.

Chairman GONZALEZ. I think this is very important. However, as you brought out in the testimony, about 50 percent of the population in Mexico is 15 years or younger now. That, to me, sounds like a crisis situation which may not give us this time spread you are speaking of, if we look on it as business as usual. I wanted to ask you if you don't consider this sort of a crisis situation that would justify a very radical change in the pattern of the institution's lending, and also stopgap programing? Because it would seem to me that, with that statistic staring us in the face, we've got a real situation where time's a wasting. We've let the situation creep up on us.

Mr. DUNGAN. In the population area? A radical shift there?

Chairman GONZALEZ. Well, with 50 percent 15 years or younger at this point, I am thinking of the interim.

Mr. DUNGAN. Right.

Chairman GONZALEZ. As this sector enters the labor force—

Mr. DUNGAN. I am not sure whether you mean a "radical change" in the profile of the lending program—

Chairman GONZALEZ. Yes; I mean, is it justified? Or should we be thinking in terms of "emergency" or "crisis programs"?

Mr. DUNGAN. There is some doubt in my mind, although I think we need to examine that more carefully, given the point you make, Mr. Chairman, there is some doubt in my mind as to the absorptive capacity—recalling Mr. Fried's very wise observation that the major limiting factor in complicated integrated rural development—he and I, and others know that very well, from our experiences in other years—which is the capacity to administer them in a sensible way.

If you push it in too fast, it clearly can result in very wasteful

activity. If, on the other hand, you're talking about more intensive activity—both bilateral and multilateral—in the population area, I think that's something, myself, that really needs perhaps a fresh look.

I mean, I am cheered, also, by the Mexican Government's attitude. But, after all, we have had several decades where we have all been hyped up on the population question, and it seems to me rather late in the game to be moving.

Mr. HANNAFORD. The \$250 million, that's Mexican funds? Is that right?

Mr. NACHMANOFF. Mexican budget funds.

Mr. HANNAFORD. Mr. Chairman, I was impressed by that "15 years," not only entering the labor force, but also women of child-bearing age in their most fertile years.

Chairman GONZALEZ. Yes, sir?

Mr. ARELLANO. Mr. Chairman, I think that the population control policy is, as you have pointed out, at best not a short-term solution. We are looking at intermediate and long-term solutions here.

I would like to suggest that the Mexican Government itself has proposed another dimension to what might be a solution. And that is, that they are quite interested in receiving, or in applying increased resources to the development of small- and medium-sized industries in that country.

Now, we all know that for a very long period of time now Mexico has taken the road that I would characterize as "state capitalism." They have gone very, very heavily into the development of the so-called "empresas parastatales."

The figures that come to my mind are 1970, I believe, about 80 so-called "state enterprises;" 1976, there were over 800 of them. And some of these are very large enterprises, They are bureaucratically administered and controlled. It's very refreshing to me, that they are now raising the question of productivity of these enterprises. The record is not good and they admit this, themselves, very readily.

It is very interesting and satisfying for me to see the Mexican Government looking again and saying: We'd like to take a good, solid, hard look at the private enterprise sector.

And I would hope that the efforts that we would make in this country would be efforts that were devoted toward the strengthening of the enterprise sector in Mexico.

Mexicans are an entrepreneurially-oriented people; they are a creative people; they are a hard-working people; and anything that we can do to give impetus to, and to help finance the desired horizontal spreading of the enterprise system in Mexico, I think, would be well in our interest and in theirs, too, by the way.

Chairman GONZALEZ. Yes, sir?

Mr. FRIED. I would like to add a couple of comments to this point, as I think we're getting at, from a policy point of view, what may well be a critical area. What can be done about it?

And I do think that a major constraint to doing more are administrative. Capital is also a constraint, particularly at the present time. The Mexican Government does have to hold back on its public deficit, and should.

Now, we should be thinking about whether, during this interim period, when commitments to restrict spending exist—whether the Mexican Government wouldn't be able, really, to expand its planning, and programs—rural development, medium- and small-scale industry, and all the rest. Population policy is on track, and more can be done. Capital isn't a constraint on population. Capital might be a constraint on some of these other programs.

All I would argue is that it's a crisis in the sense that all parties that are involved should think about thinking more ambitiously—in that sense, it's a crisis—and examine what the constraints really are, and to push ahead to the maximum.

I might say on the question of small- and medium-scale industry as pointed out, the World Bank has a project now for \$100 million to push toward the development of small- and medium-scale industries in the small cities and towns where the rural people first go. That would again, reduce the pressure for those people to move on to Mexico City, or—from our point of view—across the border.

This also is, it seems to me, an extremely constructive avenue of development.

Chairman GONZALEZ. Well, of course what we are really staring at is the fact that, with that very dramatic figure, we are looking at a fact we can't escape. And that is, that Mexico is going to have from 200,000 to 300,000 coming into that labor force as of now, and job creation just isn't there.

Now, in that connection, maybe some of the Treasury officials could say: What is the status of the IMF loan to Mexico? Because that is a restraint, also, from a policy standpoint, on what the Mexican Government can really do.

What is the present condition of the peso? What is that IMF status?

Another thing, the immediate predecessor administration didn't have—as near best as I can gather—the same attitude that is reflected in your statement about what present officials are talking about, stimulating private enterprise. I don't think that was very much the attitude of the last administration.

Mr. ARELLANO. Most definitely it was not.

Chairman GONZALEZ. But now, at the time of the devaluation, we had a very heavy outflow of capital. You had flight capital. A lot of it came to Texas. And the impact was very severe on this substratum Mexican society, on cost of living, inflation, and I attributed that to the greater spurt of illegal flow during this period—which would be 1 year, 1½ years?

So, I know that when the first danger signal came was when Mexico drew on the swap fund, or the stabilization fund. But then, obviously the rich and the powerful were tipped off, because they moved their capital out very fast, immediately before the devaluation was announced.

Now, a lot of that is still in the States. A lot of that has been used even in my district to purchase substantial businesses, shopping centers and the like, in my own home town.

So, when the IMF loan was made, the Federal Reserve extended a loan—a "credit resource"—which I understand Mexico has paid back. But what is the present status of the IMF loan, and the peso, if you are in a position to tell us? Because I think it has bearing on this.

Mr. NACHMANOFF. Mr. Arellano wanted to offer a comment before I respond to the question.

Mr. ARELLANO. If you will allow me to take you back just a little bit and make a comment, specifically with reference to this "capital flight."

In the September 1 state of the union message President Lopez Portillo observed, somewhat wryly, that we put up severe barriers to the flow of labor. That is, of "indocumentados." But we have absolutely no compunction about accepting the flow of capital.

Of course, that doesn't recognize a very important fact: That is, that money is the most cowardly thing in the world. As you point out, it leaves in a big hurry, and much of it did come to Texas, and is still residing in Texas. And what is very important, and very difficult for Mexico, is that unless they take the right kinds—and I mean by that, "right" in terms of Mexican investors—right kinds of policy steps to induce the reflow of that capital back, it is not going to return to Mexico.

So that the investment policies in Mexico, the treatment of the private sector, the way the private sector views the present Mexican Government, is extremely important.

These are things that we may be of some assistance, possibly, by just continuously reminding that this is the case. I don't know whether frankly, a lot of that capital will, in the short term, repatriate. As you have pointed out, it is in substantial investments. It is sunk now, it is literally in a productive capacity in the southwestern region.

Chairman GONZALEZ. That is very true. Thank you very much.

Mr. NACHMANOFF. Mr. Chairman, the Mexican Government reached an agreement with the IMF in October of last year on stabilizing the economy and establishing the basis for long-term economic growth.

This agreement included a series of macroeconomic objectives, the most important of which were reduction in the budget and current account deficits, and limitations on increases in external debt.

So far this year, it is my understanding that Mexico has been able to adhere to the targets that were outlined in that program. And this kind of program is necessary to restore confidence in the economy, in the peso, and to bring back some of that capital that did flow out.

Now, with regard to the IMF program, we don't think that this will necessarily be an obstacle to the expansion of worthwhile development efforts on projects which can result in increased productive activity in the Mexican economy. But, at this time, Mexico appears to be on-target with regard to its IMF program.

Chairman GONZALEZ. Thank you.

One question I wanted to go back to, since we have you here and this subcommittee is particularly interested, I know that through AID and IDB, the Caribbean Development Bank has received help from us. But, should we have a greater presence? Or should we get into the Bank, and therefore assert a greater presence in that area?

This is a question that has agitated some of us here. We had intended, sooner or later, to have some hearing on the subject matter. I don't know if you would care to comment on it, now, but since there is some flow of illegal immigration from that area, I was wondering if that is advisable.

Mr. ARELLANO. Are you speaking, now, of the Caribbean Development Bank, per se?

Chairman GONZALEZ. Yes.

Mr. ARELLANO. The Caribbean Development Bank has, as you know, received capital applications from us. We have made contributions to it. We are not members, as I understand it, of the Bank, as such, but we have made capital available to them.

This Bank is criticized in the English-speaking Caribbean because it isn't, quote, "forthcoming." Really what is happening here, in my judgment, is that the Bank is being run as a bank, and not as an eleemosynary institution. And this just doesn't seem to be acceptable to some of the English-speaking countries in the Caribbean. They would really rather have no strings attached—"grants," so to speak—and the Bank is just not set up to do this.

It is attempting to run itself in a business-like fashion that would insure its long-term viability.

Chairman GONZALEZ. You would hope that a greater American presence such as actually participating in the Bank—Do you think it would be helpful, from the American standpoint?

Mr. ARELLANO. I defer to my colleague.

Mr. DUNCAN. In my own judgment, Mr. Chairman, there is no substantial interest either to the United States or to the Bank in the development of the Caribbean, for us to have a more dominant presence in its operations.

The critical question there, as is the case in most developing countries, is to build domestic capacity, not to have heavy reliance on external technical or managerial support—except where it's needed on an ad hoc basis.

And I just think, personally, I think it is best to have that Bank work its own destiny out, with the sympathetic support—especially financial support—but not in any way dominance—which would be inevitable, I believe.

Chairman GONZALEZ. Yes, sir?

Mr. NACHMANOFF. Mr. Chairman, could I just reiterate what Mr. Arellano said earlier, that we are in the process, within the administration, of looking at ways in which we can be helpful to the development process within the Caribbean region. And, we will be engaging in consultations with various parties, both countries that are recipients of development assistance, and those that may be donors or potential donors, and the international institutions.

So, the problem is being addressed very seriously, and with considerable priority, within the administration. But our role and the part we can play will depend to a great extent on how the countries of the region see the problem, and the extent to which there is agreement on approaches that can be taken.

Chairman GONZALEZ. Mr. Hyde, welcome aboard.

Mr. HYDE. Thank you, Mr. Chairman.

Chairman GONZALEZ. Sorry I couldn't see your movie.

Mr. HYDE. That is all right; I had two other subcommittee meetings this morning, and bilocation is no tone of my talents.

I really don't think it's fair for me to ask questions because I did not hear the testimony, and I don't want to take these gentlemen over something that they may well have already covered.

Chairman GONZALEZ. You may have some question you may have entertained before the hearings. You are certainly welcome to ask it.

Mr. HYDE. I am troubled by the illegal alien problem in the United States. And we watched a film yesterday from "60 Minutes" which graphically portrayed the woeful inadequacy of the border patrol.

I know that is certainly not the only answer to the problem, but for the life of me I can't figure out why we have 80 people patrolling 2,000 miles of border; or 21 counties, I am sorry.

The chief of Laredo said he has 21 counties. He has 80 people. And I know you are not the appropriate people to ask whether their budget is cut, or whether they don't ask for enough, or whether we have a policy of turning the other cheek to the immigration across the Mexican border.

I would like to find out: We have billions to give overseas for problems, and rightly so, but we just somehow don't have enough to have an adequate border patrol. And this puzzles me, Mr. Dungan. Do you have the answer?

Mr. DUNGAN. You are right; we are not, in our official capacity, in a position to advise on this matter. But, because of a past association with this problem many years ago, I would like to make an observation—which is more or less personal, and unofficial.

It seems to me that what is different about the administration's approach to this problem is that it is balanced. It does not take one approach to the exclusion of others. We have been discussing the contribution of the IFT's to stemming the flow of illegal immigration. You are now talking about policing the borders.

It seems to me that to place the full onus—INS is in a much better position to comment on this—but to place the full onus on the police force, in this case, is somewhat analogous to the situation of placing the onus on, let us say, the Labor Department to police illegal or sweet-heart contracts between trade unions and employers.

Some of the burden needs to be placed on the violators. And not only, in this case, the immigrant himself, but rather the person—the employer who hires illegals—who, in one sense, is more culpable in the sense of his knowledge.

So it seems to me there is quite a difference in the administration's program from any past efforts toward the policing aspects of dealing with this problem.

Mr. HYDE. I agree. And we had a bill last session that did just that. And somehow it got lost along the way. I don't know whatever happened to it, but it certainly imposed penalties on employers who knowingly hired illegal aliens. And there were warnings, and escape clauses, and everything. It was a moderate bill. I think it was an innovative approach, and I am pleased to see the administration using that, too. Do you have any other comments on the administration's program? The amnesty provision, and the 7-year provision, and the enforceability of that?

Chairman GONZALEZ. Well technically, Mr. Hyde, that has to do with our immigration laws and all. We have to defer to Mr. Rodino and his committee on that.

Mr. HYDE. OK. I simply read here that one of the witnesses testified on the problem of "illegal migrants" and I thought that was within the generic umbrella. But I will accept your distinction, and I might be asking too broad a question.

Chairman GONZALEZ. No; in fact as far as I am concerned I am not trying to rule out your question—except that these particular witnesses may be unable, or reluctant; I did touch on something that is peripheral and similar to something you asked at the outset, which is really not pertinent here but it was related to the enforcement and the like, and some of the byproducts of social problems that result from this flow. But, no, if any of the witnesses feel they have an opinion and care to comment on Mr. Hyde's question, it is fine. But I would like to stress the fact that it isn't really in keeping—

Mr. HYDE. I will withdraw the question. You know, your opinions are your opinions, and I don't know where the program is going to go, but it is a thoughtful approach. I had my own problems with the amnesty thing and its enforceability. But, we have got to do something.

I have no other questions, Mr. Chairman.

Chairman GONZALEZ. Well, I have one final question.

And I don't know if this would apply to Mexico or not, but we have often heard "trade not aid," and the Mexican Presidents have constantly, almost monotonously, referred to the fact. And they have implied—and this is a thing that I find questionable, as far as attitudes on the part of the Mexican Government—that if there is anybody's fault, it is really the United States, because we have such a tremendously favorable balance of trade with Mexico. Implying that Mexico is sort of on the receiving end of the old mercantile system. And, that if the United States would give Mexico a favorable trade consideration in some of its tariff treatments and the like, and would help reduce that imbalance in the trade factor, that this would be more helpful than anything else.

Now, the President has referred to globalism, and in fact I think—if I am not mistaken—he referred to the fact that there really shouldn't be any special relationship with Latin America—which I don't know how to accept here. Because destiny and geography gives us a special relationship we can't escape any way we try.

Now, is there such a thing as Mexico being considered for reduction in trade and tariff barriers? Is it under the GATT rules amenable to being singled out for special treatment? I don't know.

Mr. NACHMANOFF. Well, Mr. Chairman, I will respond briefly to you, if my colleagues want to add anything to that.

The administration's policy, of course, is to seek to maintain and work toward as open a trade system as possible on a global basis. As I mentioned in my remarks, certainly the Mexican economy depends very heavily on its exports, and we are the largest market for Mexican exports.

And it is very important to Mexico that we avoid and resist measures which would restrict those exports. I don't think that our present policies are unduly restrictive. The basic problem is in increasing production and keeping open the markets that are now available.

But certainly this is being pursued on a global scale—multilateral trade negotiations within the generalized system of preferences for developing nations under the Trade Act.

There are considerable opportunities. I think the main point is to keep them open for countries such as Mexico.

Mr. ARELLANO. If I could amplify on that just a bit, Mr. Chairman?

Chairman GONZALEZ. Go right ahead.

Mr. ARELLANO. The United States does have, as a fundamental economic policy, a recognition of special and differential trade agreements. As Mr. Nachmanoff pointed out, our entire GSP umbrella is indeed this.

In Mexico's case they have not utilized the generalized system of preferences as well as they might have. We have been urging them to look very carefully at the GSP system, to utilize it in a more effective fashion; because it does, we believe, offer them the opportunity to increase trade with the United States under these special differential and more favorable terms.

Again, at the risk of sounding like this might be a hobbyhorse, and it is, I think that what Mexico needs to do is to develop the capacity to export to us products which are desired in the American market. And this whole question of developing small- and medium-scale industries may, to some extent, move in these directions.

The enterprise system in Mexico is—well, it can be strengthened. And it would be to their advantage to do it over the longer term, certainly in terms of trade.

Chairman GONZALEZ. Yes, sir?

Mr. FRIED. Mr. Chairman, let me start by saying I think the problem of development in Mexico that we face is not a question of trade—neither aid nor trade. I think it's important to move across the whole range of possibilities in this area, including the kinds of things like rural development, small-scale industry, as well as pushing ahead to further expansion of the industrial capacity that Mexico has accomplished in the past. It can do more in the future.

Does that mean that special treatment of Mexico is necessary? I would argue very strongly that it does not, and it should not be accorded.

Mexico's is a big economy. I think what Mexico has is the opportunity to export against a very, very large market in the United States. To export without penalty in transportation or all the rest, it has the opportunity, if it can use its own resources efficiently. If it can get away from excessive protection of its own economy, it can generate the kinds of activities and production that would result in a very, very big increase in exports to the United States. That's its responsibility.

Our responsibility, it seems to me, is that if the Mexicans can do that, we should be prepared to keep our markets open. Because then, in effect, we face a choice: Do we want the imports? Or do we want the workers; on a small segment of this problem, that's the kind of choice it is.

And I think that from our own point of view, both in terms of our own welfare and in many other aspects of the situation, we're better off in trying to keep markets open and deal with the problems that that poses for us in other ways.

Chairman GONZALEZ. That is a very good point. In fact, Mexico is far more protectionist than anything the United States could conceive of.

Mr. FRIED. That is right.

Chairman GONZALEZ. And in fact, in the last few years, particularly under the immediate predecessor of their President, it amounted almost to a vindictiveness toward the American business on the American side of the border.

And this is the reason that I haven't—and I guess the United States would hardly be in a position to have a public disputation—but I notice that the last three Presidents of Mexico have repeatedly said, "Well, your balance of trade with us is the most favorable in the world, and in effect we are your customer." But, they have left out the very antagonistic policy or pattern that they have systematically adopted.

I know, especially in the last 5 or 6 years, for example we had a crisis in some of our border points—in fact, going all the way into the interior as far as my district during the holiday season where, arbitrarily, Mexican authorities would strip a Mexican citizen visiting the United States who purchased goods—would come back and have every one of those goods removed, arbitrarily, by the Mexican border officials. And it created quite a crisis among the business element on our side.

I recall vividly 3 years in a row, in 1968, in the early 1970's, and it's sporadically done—until quite recently. I don't know whether it's happened thus far in this administration.

Now, this was our argument when we received the complaints: That the United States, we couldn't possibly do that overnight. About the only way I know that we could do the equivalent would be on a disease inspection on fruit importation. But this is different. And, it was intended. And the Mexican officials admitted, at the time, that they were out to dissuade Mexican tourists coming to the United States from purchasing American-made goods.

Now, I haven't heard any argument publicly made to defend the American interest in that respect, but the point I am making is that, from the utterances of the Mexican leaders, they look upon it like they do. And what they have told our leaders lately with respect to the illegal alien problem is: They say publicly, well, it is our problem; but, in reality, in discussing it with us and our officials, they really tell them, well, it is your problem.

And what I deplore the most is what appears to be a lack of willingness to consider this on a bilateral basis, like trade, being a two-way street.

It is fine for us to consider reduction of tariffs and everything else and special treatment, but if they don't avail themselves of the programs that are now available I don't know what we can do about it.

Or, if they insist on a unilateral and rather arbitrary erection of barriers when it comes to the purchase of American goods, well then again I don't know what we can do about it, from our standpoint.

And I imagine that, in the desire to maintain amicable and harmonious relationships, the less said publicly about these areas the better. But we still have a responsibility on our side to defend our proper interests.

As I have said time and time again, I don't think we have to give the family jewels a way to prove we're good neighbors.

Well, gentlemen, I don't have any further questions.

Do you, Mr. Hyde? You may have one final one.

Mr. HYDE. Well, yes, I think you brought up a very good area.

What is the current climate for foreign investment in Mexico? Is it conducive to foreign investment? Is Mexico doing anything to improve it, or enhance it?

Mr. ARELLANO. The early indications, Mr. Hyde, in the early statements that were made by the Mexican administration in public statements that were made, were that they were desirous of foreign investment in Mexico. These are the statements that have been made at the very highest levels; that is, the President and his Ministers and so forth. They were extremely interested, and indeed desirous, of foreign investment—particularly the U.S. investment.

The actuality of the situation is a bit different. And that is, that there are a series of measures which have been taken in recent months, particularly things such as the automotive industry decree, and just yesterday a decree relating to the entry of new businesses. And they defined that very broadly: you can already be in Mexico and have your business established, but if you choose to expand it it may be classified as a "new business," and placed under administrative controls.

These things tend to dampen the climate for foreign investment; there's no question about it. The Mexicans quite rightly say, "This is our Nation, and we intend to regulate investment in any way that we see proper."

And, that is obviously their right to do so.

The other side of the coin is that foreign investment, particularly investment from the United States, is a free agent and it can make choices "yea" or "nay."

So that, in my opinion, they should be very careful in measuring what they do at the administrative level, as against what the stated desires of their leadership has been.

Mr. HYDE. In other words, one of the problems is that Mexico is not as receptive. It is not making things as seductive for foreign investment as they might. Is this a matter of some negotiation, I would assume?

Mr. ARELLANO. I think that the leadership is quite interested in seeing—the present leadership—in seeing investment in Mexico under terms that they consider acceptable. That is, from the national standpoint.

Again, repeating myself, whether the actions that are taken at the bureaucratic-administrative level are conducive to that, is another story. And yes, to some extent, this is open to negotiation. We do, through our joint consultative mechanism, point out the problems as seen from our side with, say, such things as the automotive decree. We have made this clear to them, and we have difficulty with this in that our producers who have investments in Mexico are quite concerned.

Mr. HYDE. Thank you, Mr. Chairman.

Chairman GONZALEZ. They don't mind Hispanicizing the trade name—I am just kidding. I understand they had this movement in Mexico this last year to change everything. I was wondering what they would call Coca-Cola.

[Laughter.]

Chairman GONZALEZ. Didn't they have some law or decree that they'd have to change the name from a foreign or an English name to Spanish?

Mr. ARELLANO. There has been this licensing, patenting, and world trademark act, and I am frankly not familiar enough with all the provisions about it. If you'd like, we could submit something on it.

Chairman GONZALEZ. I was really not that much interested. It is part of the trend. They are doing it in Canada. So, I guess—but we are really very grateful to you gentlemen for responding so quickly. It gave this subcommittee a chance to be the first to act on some of the things the President has communicated to the Congress, and we are deeply grateful for the time you have taken.

I hope we maintain a relationship with you and follow through on some of these and related problems.

I might add that our biggest concern at this time is to try to get the conference report on appropriations. [Laughter.]

So that we can have these.

But, incidentally, these practices I referred to—and the only reason I referred to them—is that they have had a very definite adverse impact, and have provided obstacles in our handling expeditiously and favorably the replenishment legislation; and the emphasis and the dire need to continue the U.S. viable presence in these multilateral lending institutions were under very heavy attack.

We do face legislative dangers and perils. And when you have these subsidiary problems such as illegal alien problems and others, we have to confront it as a side issue.

Mr. FRIED. I think we have all tried to avoid self-serving comments, Mr. Chairman, but it seems to me that there is no better indication of the strong and very direct interests of the United States in enabling these institutions to continue and to expand their programs as in the case of Mexico. This is one of the few ways in which we can politically advance interests that are obvious—our own, as well as Mexico's.

Second, I think the record shows that, as far as innovation is concerned, these institutions have done a tremendous job in seeking to push ahead into the new frontiers to deal with the root causes of this problem.

Chairman GONZALEZ. I agree with you. I think that has been the track record of the banks. And that has enabled us, even with obstacles and problems, to really prevail in the end. It is the only real thing, because you can't dispute the record.

Thank you again, gentlemen.

[Whereupon, at 12:05 p.m., the hearing was adjourned, subject to the call of the Chair.]

