

which has accelerated the demand for housing and increased housing costs. However, pockets of over-crowded and unsanitary housing persist in rural areas and poor urban neighborhoods. In 1980, more than 14% of the housing in Dimmit, Starr and Zavala counties in Texas lacked some or all plumbing. Over 20% of the houses in the Texas counties of Cameron, Dimmit, Hidalgo, Maverick, Starr, Webb, Willacy and Zavala had 1.01 or more persons per room.

B. Structure of the Regional Economy

The Non-Farm Economy

Analysis of earnings by major source in the seven border SMSA's reveals a general pattern of greater dependence on retail/wholesale trade and government, and less dependence on manufacturing and services, than in the nation at large. (See Table II-6.) Structural imbalance is especially pronounced in the three eastern-most metropolitan areas: in Laredo, trade accounted for over 30% of total non-farm earnings in 1981, while manufacturing provided only 6.2%; in McAllen the comparable shares were 27% and 12%; and in Brownsville 23% and 19%. In the same period, El Paso relied far less on trade, and somewhat more on manufacturing, than the other Texas border

SMSA's. Tucson and San Diego combined even more modest trade dependence with active manufacturing sectors and large service industries.

Table II-6 also shows that despite faster than average employment growth in the retail/wholesale sector in Laredo, McAllen, and Brownsville, earnings in that sector remained relatively constant as a share of total earnings, possibly a reflection of increased competition for low-skilled jobs.

Several rural counties also depend heavily on retail/wholesale trade conducted in relatively small cities on or near the border. More often, however, the principal source of non-farm earnings in the non-SMSA counties is Federal or state/local government; with trade a distant second; and services, transportation and occasionally mining or construction accounting for smaller income shares.

Agriculture.

Agricultural patterns in the border region are determined largely by the availability of water. Unirrigated crop land is rare, and most labor intensive agriculture is concentrated in relatively flat, irrigated areas of San Diego, Imperial, and

Riverside Counties in California; Yuma and Pima Counties in Arizona; and Hidalgo and Cameron Counties on the Texas Gulf Coast.

Agricultural employment in these areas has grown very little during the past five years, and the proportion of jobs furnished by agriculture has been declining. Nonetheless, agriculture remains crucial in Imperial County, where it furnishes almost as many jobs (84%) as the rest of the private sector, and in Yuma County, where the number of agricultural jobs is 37% as large as the rest of the private sector. Agriculture is also a significant employer in Hidalgo County/McAllen SMSA (16% as many jobs as the rest of the private sector) and in Riverside County (12%).

Unlike retail/wholesale trade, which is highly sensitive to shifting conditions in Mexico, border-region agriculture is subject chiefly to developments in the U.S. farm economy at large, and to local weather and pest control problems. In addition, certain border farming areas (e.g., the citrus growing areas of South Texas) operate at a competitive disadvantage owing to shipping distance from northern markets.

On the whole, in recent years, agriculture has neither added to nor reduced employment in the border region. The looming

exception in this overall pattern is Imperial County, where poor narvests reduced average annual agricultural employment by about 1600 jobs (15,358 to 13,757) between 1979 and 1981.*

Interdependence of the U.S.-Mexico Border Economies

The unity and isolation of many U.S. border cities and their larger Mexican counterparts, together with the lack of economic diversity on the U.S. side, have made local U.S. economies in the region heavily dependent on developments in Mexico. This dependency increased between 1978 and 1981 as robust Mexican economic expansion, rapid population growth in the Mexican border states, and the Lopez-Portillo Government's staunch defense of the peso despite high inflation, brought growing numbers of Mexican shoppers northward in search of increasingly affordable U.S. goods. (See Table II-7, on retail sales increases in Texas border cities.) Even on the threshold of this boom period (the most recent year for which complete retail sales data are available is 1977), retail sales were roughly 60% of total personal income in the Brownsville and

*Because of expansions in other areas, the chronically high unemployment rate in Imperial County was roughly stable during 1979-81 (at about 25%). Unemployment rates in heavily agricultural areas fluctuate widely during any given year, owing to the seasonal character of agricultural employment. In 1981 peak unemployment in Imperial County was 38.6% in August; the lowest rate was 23.8% in January.

McAllen SMSA's and 90% of total personal income in Laredo. The average for Texas SMSA's was about 50%; for Tucson, about 44%; and for San Diego, about 40%.*

In addition, more affluent Mexicans, eager to exploit the peso's artificial strength and to hedge against the effects of rapid domestic inflation, invested heavily in U.S. border real estate, buoying property values, sparking new construction, and compounding bank deposits. The general business index for the Lower Rio Grande Valley expanded at an annual rate of 15.8% over the 1980-81 period.

As Table II-8 indicates, the border region's 1978-81 economic boom benefited not only local businesses and banks, but local governments as well, by generating a rapidly increasing flow of sales tax receipts. Between 1978 and 1981, sales tax receipts in the cities of Brownsville, Laredo, and McAllen all increased by about 100%; in El Paso, the three year increase was about 42%.

*Percentages in this paragraph reflect the best available data and are probably low. Total SMSA income was estimated using 1980 population figures and 1979 per-capita income. In The Border Economy: Regional Development in the Southwest, p. 48, economist Niles Hansen observes that, in 1978, per capita retail sales in Laredo were the highest in the nation.

Economic Resources of the Border Region

The border region's most abundant economic resource is people. However, its physical resources are extremely limited. Most of the energy and mineral wealth of the four border states lies outside the border region itself. The region is a net energy importer, and copper is the only metal ore mined in significant quantities.

The region's scarcest and most valuable physical resource is probably water -- most of which comes from the Rio Grande and Colorado rivers, and from ground water reservoirs which are being depleted. Limited water supplies imply difficult choices among long-term development alternatives for the region's economic and political decision makers. In some areas, declining air quality owing to heavy cross-border vehicular traffic and industrial emissions is also a limiting consideration.

A final impediment to regional economic growth, according to some local observers, is a shortage of investment capital, especially in the smaller communities. In 1978, per capita deposits in area commercial and mutual savings banks were \$2,826, compared to a U.S. average of \$4,617. Low wage and savings rates, and businesses' inability to generate internal

funds owing to the local economy's underdevelopment, contribute to the prevailing weakness of the capital base.*

C. State and Local Government

State Revenue Structure

Table II-9 indicates that all four states in the border region rely more heavily than states in general on own-source revenues -- i.e., income and sales taxes, severance taxes, user charges, interest income, other taxes and miscellaneous revenues.

California (85.4%) and Arizona (81.3%) rely more heavily on taxes for their own-source revenue than states in general (79.9%), and Texas (77%) and New Mexico (59.1%) less heavily. Arizona (60%), New Mexico (56%), and Texas (62%) derive the bulk of their tax revenue from sales taxes. In California nearly half of the tax revenue comes from personal and corporate income taxes, compared with a national average of 36%. In contrast, 28% of Arizona's tax revenue and 10% of New Mexico's come from income taxes. Texas has no corporate or personal income tax at all.

*Material in this section is drawn largely from the Southwest Border Regional Commissions' 1980 Economic Development Plan, Part II, "State of the Region's Resources."

Severance taxes and royalties on natural resource extraction allow Texas and New Mexico to raise a considerable share of their own-source revenues in other states -- assuming that price elasticities permit severance and royalty charges to be passed on to consumers. New Mexico generates over 36% of its own-source revenues, and Texas 28%, from severance taxes and royalties. (The national average is 6.1%.)

Local Revenue Structure

Like their states, the major border cities have diverse revenue structures. (See Table II-10.) Brownsville and El Paso rely more heavily on intergovernmental aid, and McAllen and Laredo somewhat less heavily, than the U.S. average for cities of similar size. However, almost all intergovernmental aid for the four Texas border cities is Federal. Census data for FY 1981 show no Texas border city receiving more than 1.6 percent of general revenue from the state government -- compared to a national average of 18.6% for cities of similar size.

Tucson depends on intergovernmental aid for 46.2% of its general revenues -- 17 percentage points higher than the U.S. average for similar-sized cities. San Diego generates 31.2% of its general revenue from intergovernmental aid -- 21 points

under the average. Both Tucson and San Diego, however, get an equal share of their intergovernmental revenues from the Federal and state governments.

All seven border cities depend heavily on sales tax revenues. The range is from 59.3% of own-source revenues in Tucson, to 20.4% in El Paso, compared with 14.5% and 18.2% averages for comparably-sized cities across the U.S. Conversely, all seven border cities depend less on property taxes than comparably-sized cities elsewhere in the country. The range is from 32.8% of own-source revenues in El Paso to 11.3% in Tucson, compared with a national average of 42.2 percent.

In addition to taxes, the four Texas cities also rely on charges -- mainly bridge tolls from border traffic -- for a major share (30-40%) of own-source revenue.

Tax Capacity and Tax Effort in the Border States.

Theoretically at least, a state's ability to raise additional revenues at any given time is a function of its potential and actual tax revenue -- i.e., its taxing capacity and its current tax effort. According to a method developed by the Advisory Commission on Intergovernmental Relations (in which a state's tax capacity and effort are related to national averages and

expressed as an index number, with the national average equaling 100), only Arizona of the four border states has less than an average tax capacity index (89).* Texas' index is 124; California's 117; and New Mexico's 107. (According to ACIR's method, Alaska has the highest tax capacity index in the nation, at 260; and Mississippi the lowest, at 69). In contrast, Arizona's tax effort index is 117; California's 102; and New Mexico's 83. Texas' tax effort index is 64.5 -- with the exception of Nevada, the lowest in the nation.

D. Immigration Patterns and Problems

Documented border crossings from Mexico increased by only 11% between 1971 and 1979 (from 148 million to 164 million, despite rapid population growth in both national border regions). Between 1979 and 1981, however, documented crossings jumped by

*ACIR calculates tax effort by comparing actual tax collections in a particular state to the level of revenues that could be generated using a hypothetical average tax structure (i.e., the same average used to compute state tax capacity). A tax effort index of 100 means that the state is generating revenues equal to those that would be produced by the average tax structure. Arizona's 117.4 score means that, according to ACIR, it is generating 17.4% more tax revenue from estimated available resources than it could by taxing at an average rate. Conversely, Texas and New Mexico generate far less revenue from estimated available resources than they could with average tax structures.

an additional 16% (to 191 million), reflecting in part the peso-driven increase in cross-border commerce during those years. Most official border-crossers (63% in 1981) were Mexicans, commuting to jobs, shopping, visiting, or coming to stay. More than half of all the documented crossings occurred in Texas; about a third in California; and the rest in Arizona. (Only 0.2% of 1981 border-crossers went into New Mexico.)

Estimates of illegal immigration are necessarily indirect and hard to credit. One possible indication of the ebb and flow of illegal entrants is the number of deportable aliens located annually by immigration authorities. By this proxy, the annual influx of undocumented aliens should have increased dramatically between 1970, when INS located 240,000 deportable Mexican aliens, and 1980, when they located 817,000. If documented immigration is taken as proxy, however, the annual influx of undocumented aliens may be relatively stable, peaking in years of Mexican economic hardship (e.g., 1973-74 and 1976) or U.S. commercial opportunity (e.g., 1979-81), and otherwise growing rather slowly.

For the border region, the volume of illegal immigration is probably less important than the destination of undocumented arrivals and their determination to stay. Here, again, little

is known. Some observers suggest that in California illegal immigrants tend to by-pass the border counties, preferring instead the anonymity and employment opportunities offered by cities with large Hispanic communities farther north. (City officials in Los Angeles estimate that one seventh of the county's population are illegal aliens.) In the Lower Rio Grande Valley, by contrast, illegal immigrants may be less inclined to move beyond the border counties, owing to the predominantly Hispanic character of these areas and their distance from northern economic centers.

The net effect of illegal immigration is also uncertain. Some contend that illegal aliens benefit the border region by taking unpopular jobs, purchasing consumer goods, paying taxes, and demanding very little in the way of local services. The fact remains, however, that simply by increasing the size of local populations, undocumented aliens add to the work of local governments. More people mean more police and fire protection, more sanitation service, and (since the Supreme Court's 1982 decision denying Texas' right to withhold schooling from children of illegal aliens) more classrooms and teachers. In addition, illegal aliens have access to state-funded indigent health and human service programs (except in Texas), as well as emergency health care, food, clothing and shelter.

Table II-1

Population of the Border Region by County, 1970 and 1980

	Population			1980 Percent of State(%)	% of Spanish Origin	
	1970	1980	%CH		1970	1980
Arizona	1,775,399	2,718,215	53	100.0	15	16
Cochise	61,918	85,686	38	3.2	29	27
Pima	351,667	531,443	51	19.6	18	21
Santa Cruz	13,966	20,459	47	.8	73	74
Yuma	60,827	90,554	49	3.3	23	29
Border County Total	488,378	728,142	49	26.8	22	24
California	19,971,069	23,667,902	19	100.0	12	19
Imperial	74,492	92,110	24	.4	40	56
Riverside	456,916	663,166	45	2.8	14	19
San Diego	1,357,854	1,861,846	37	7.9	9	15
Border County Total	1,889,262	2,617,122	39	11.1	11	17
New Mexico	1,017,055	1,302,894	28	100.0	30	37
Dona Ana	69,773	96,340	38	7.4	43	52
Grant	22,030	26,204	19	2.0	49	51
Hidalgo	4,734	6,049	28	.5	47	47
Luna	11,706	15,585	33	1.2	46	39
Otero	41,097	44,665	9	3.4	20	22
Border County Total	149,340	188,843	26	14.5	38	44
Texas	11,198,655	14,229,191	27	100.0	16	21
Brewster	7,780	7,573	-3	.1	47	43
Cameron	140,368	209,727	49	1.5	71	77
Culberson	3,429	3,315	-3	*	38	63
Dimmit	9,039	11,367	26	.1	75	78
Edwards	2,107	2,033	28	*	39	48
El Paso	359,291	479,899	34	3.4	50	62
Hidalgo	181,535	283,229	56	2.0	72	81
Hudspeth	2,392	2,728	14	*	31	58
Jeff Davis	1,527	1,647	8	*	47	47
Jim Hogg	4,654	5,168	11	*	81	91
Kinney	2,006	2,279	14	*	79	57
LaSalle	5,014	5,514	10	*	60	74
Maverick	18,093	31,398	74	.2	85	90
Pecos	13,748	14,618	6	.1	35	49
Presidio	4,842	5,188	7	*	90	77
Real	2,013	2,469	23	*	30	22
Starr	17,707	27,266	54	.2	80	97
Terrell	1,940	1,595	18	*	54	43
Uvalde	17,348	22,441	29	.2	43	55
Valverde	27,471	35,910	31	.3	54	63
Webb	72,859	99,258	36	.7	77	92
Willacy	15,570	17,495	12	.1	73	80
Zapata	4,352	6,628	52	*	62	76
Zavala	11,370	11,666	3	.1	85	89
Border County Total	926,455	1,290,411	39	9.1	62	73

*Less than .05 percent

Table II-2

Income and Poverty in the Border Counties, 1969 and 1979

	Per Capita 1969	Income 1979	%CH	Percent of State 1979	Percent Below Poverty Line 1979
Arizona	2,945	7,043	139	100	13
Cochise	2,563	5,738	124	81	15
Pima	2,988	7,149	139	102	13
Santa Cruz	2,324	5,447	134	77	18
Yuma	2,586	5,681	120	81	16
California	3,632	8,303	129	100	11
Imperial	2,459	5,809	136	70	15
Riverside	3,097	7,477	141	90	11
San Diego	3,392	7,969	135	96	11
New Mexico	2,449	6,120	150	100	18
Dona Ana	2,250	5,284	135	86	23
Grant	2,330	5,703	145	93	14
Hidalgo	1,923	5,242	173	86	17
Luna	2,075	4,790	131	78	23
Otero	2,455	5,379	119	88	15
Texas	2,810	7,206	156	100	15
Brewster	1,995	4,837	142	67	22
Cameron	1,580	4,336	174	60	32
Culberson	2,073	4,290	107	60	18
Dimmit	1,255	3,922	213	54	37
Edwards	2,959	4,939	67	69	33
El Paso	2,359	5,306	125	74	22
Hidalgo	1,523	4,040	165	56	35
Hudspeth	1,652	4,480	171	62	31
Jeff Davis	1,893	5,675	200	79	25
Jim Hogg	1,366	4,772	249	66	22
Kinney	1,514	4,146	174	58	35
La Salle	1,444	4,241	194	59	41
Maverick	1,280	3,100	142	43	40
Pecos	2,383	5,708	140	79	17
Presidio	1,723	3,751	118	52	41
Real	1,717	4,636	170	64	34
Starr	1,123	2,668	138	37	51
Terrell	2,169	7,069	226	98	18
Uvalde	1,903	4,697	147	65	28
Valverde	1,966	4,542	131	63	30
Webb	1,573	3,980	153	55	33
Willacy	1,404	4,133	194	57	35
Zapata	1,276	4,395	244	61	28
Zavala	1,420	3,202	125	44	39
United States	3,139	8,668	176		12

Table II-3

Unemployment Rates in Southwest
Border Counties, 1976-1982

STATE

Counties

	1976	1977	1978	1979	1980	1981	1982
ARIZONA							
Cochise	12.5	12.3	9.7	7.4	9.0	8.5	12.1
Santa Cruz	20.4	20.1	13.9	10.5	12.6	11.4	19.7
Pima	8.1	7.4	5.6	4.4	5.8	5.5	9.6
Yuma	10.7	10.9	9.3	8.7	11.9	12.5	16.3
CALIFORNIA							
Imperial	16.7	21.7	25.0	25.0	22.8	24.9	31.2
Riverside	9.0	8.2	6.7	7.1	8.3	9.2	12.9
San Diego	10.1	9.0	7.0	6.2	6.6	6.9	9.3
NEW MEXICO							
Dona Ana	9.4	8.0	5.6	6.8	8.2	8.0	9.6
Grant	7.3	6.8	6.4	6.4	7.3	7.0	28.3
Hidalgo	6.8	8.1	5.6	4.8	4.4	4.5	10.0
Luna	10.1	10.3	6.9	10.5	11.2	9.6	12.0
Otero	9.2	8.1	6.9	7.0	7.3	7.4	8.0
TEXAS							
Brewster	2.7	2.6	2.7	2.6	3.2	3.2	3.9
Cameron	12.0	11.4	10.1	8.5	10.3	9.6	12.5
Culberson	4.3	4.1	5.5	4.5	6.4	4.0	4.8
Dimmit	10.9	10.6	9.5	9.4	9.7	10.4	11.6
Edwards	6.3	5.8	6.5	5.0	5.9	4.4	4.7
El Paso	11.2	11.4	9.2	7.9	9.2	9.1	11.1
Hidalgo	11.7	11.9	12.8	12.0	13.6	13.2	15.5
Hudspeth	3.9	3.9	3.3	3.2	3.9	2.7	2.5
Jeff Davis	4.9	3.7	3.9	3.0	3.3	3.2	3.5
Jim Hogg	5.8	6.5	7.4	8.2	6.6	5.8	10.3
Kinney	7.0	6.9	6.8	6.3	5.3	4.8	3.7
LaSalle	12.8	9.5	7.2	7.2	7.0	7.6	11.7
Maverick	20.8	22.6	21.5	20.9	25.8	28.9	28.9
Pecos	4.0	3.3	4.5	4.1	4.3	4.4	7.1
Presido	6.4	7.8	6.0	4.9	5.7	5.5	8.7
Real	7.0	7.8	6.6	5.3	5.2	5.8	4.1
Starr	30.7	27.6	31.4	32.2	37.3	36.7	33.5
Terrell	4.8	3.7	3.9	3.3	3.9	4.4	4.6
Uvalde	7.2	6.3	5.7	6.1	7.0	7.2	8.3
Val Verde	14.2	12.8	10.9	9.8	10.9	11.3	13.0
Webb	14.2	13.7	12.8	10.7	11.4	10.2	16.3
Willacy	10.8	10.1	10.2	10.8	13.9	13.6	12.3
Zapata	14.4	13.0	11.9	10.6	11.5	8.9	13.4
Zavala	18.9	18.6	15.1	17.7	19.4	19.7	20.6

Source: U.S. Department of Labor, Bureau of Labor Statistics

1/ These unemployment rates are estimates based on administration records developed through a 43 step handbook method in a Federal-State cooperative program.

Table II-4: Employment in Border Counties, Private Nonagricultural Sector 1972- and 1981, and Agriculture 1978 and 1981

STATE	Counties	NONAG EMPLOYMENT			AG EMPLOYMENT			
		1972 Empl	1981 Empl	Average Annual Percentage Increase	1978 Empl	1981 Empl	4 Year Change	Average Annual Percentage Increase
TEXAS								
	Brewster	1,009	1,286	2.7	-	19	*	*
	Cameron	29,552	50,635	7.1	2,709	1,912	-797	-7.4
	Culberson	886	1,170	3.2	-	32	*	*
	Dimmit	779	1,869	13.9	135	263	128	23.7
	Euwards	169	238	4.1	-	-	*	*
	El Paso	90,419	131,247	4.5	739	891	152	5.1
	Kidalgo	28,715	54,350	8.9	8,136	8,887	751	2.3
	Hudspeth	269	225	-1.6	-	205	*	*
	Jeff Davis	90	125	3.9	-	82	*	*
	Jim Hogg	440	732	6.6	82	91	9	2.7
	Kinney	259	284	1.0	46	11	-35	-19.0
	LaSalle	365	614	6.8	47	90	43	22.9
	Maverick	3,237	5,158	5.9	282	271	-11	-1.0
	Pecos	3,171	5,022	5.8	141	143	2	.3
	Presido	494	660	3.4	69	40	-29	-10.5
	Real	95	131	3.8	-	-	*	*
	Starr	934	1,826	9.6	935	771	-164	-4.4
	Terrell	263	167	-3.6	-	-	*	*
	Uvalde	3,458	4,481	3.0	394	407	13	.8
	Val Verde	3,545	5,299	4.9	28	74	46	41.1
	Webb	13,917	28,075	10.2	306	388	82	6.7
	Willacy	1,094	1,659	5.2	627	617	-10	-.4
	Zapata	139	775	45.8	-	-	*	*
	Zavala	838	1,327	5.8	480	421	-59	-3.1
ARIZONA								
	Cochise	10,023	11,875	1.8	341	498	157	11.5
	Santa Cruz	4,550	6,345	3.9	25	34	9	9.0
	Pima	89,849	143,031	5.9	1,736	1,652	-84	-1.2
	Yuma	10,525	17,426	6.6	6,274	6,598	324	1.3
CALIFORNIA								
	Imperial	11,529	16,207	4.0	14,563	13,757	-806	-1.4
	Riverside	89,364	135,644	5.2	15,237	16,638	1,401	2.3
	San Diego	302,266	520,423	7.2	16,066	17,413	1,347	2.1
NEW MEXICO								
	Dona Ana	10,851	16,218	4.9	2,100	2,293	193	2.3
	Grant	5,355	7,751	4.5	2,156	2,849	693	8.0
	Hildago	979	1,372	4.0	34	36	2	1.5
	Luna	2,026	2,202	.9	130	116	-14	-2.7
	Otero	6,222	8,495	3.6	39	35	-4	-2.6

1/ Earliest year for which comprehensive data available

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table II-5

CHANGES IN WHOLESALE AND RETAIL TRADE AND PRIVATE NONAGRICULTURAL EMPLOYMENT
IN SELECTED BORDER COUNTIES, 1972, 1978, and 1981

County	PERCENT CHANGE 1972-1981		TRADE AS PERCENT OF NONAG 1981	PERCENT INCREASE IN TRADE EMPLOYMENT		INCREASE IN NUMBER OF TRADE JOBS 1978-1981
	NONAG	TRADE ONLY		1972-1978	1978-1981	
Pima, Arizona	59	52.7	29.7	31.6	16.0	5,873
Santa Cruz, Ariz.	39	46.8	53.2	14.3	28.5**	748
Yuma, Arizona	137.4	64.4	30.8	59.7	3.0 ϕ	213
Imperial, Calif.	40	31.2	47.6	11.8	11.6*	801
San Diego, Calif.	72	64.2	29.2	50.5	11.6 ϕ	12,773
Dona Ana, N.M.	49	42.8	52.1	38.7	3.0 ϕ	165
Cameron, Tex.	71	76.3	37.1	42.0	24.2	3,655
El Paso, Tex.	45	43.3	31.1	31.4	9.0 ϕ	3,377
Hidalgo, Tex.	89	69.4	44.2	29.4	30.9*	5,711
Maverick, Tex.	59	98.8	48.6	38.7	43.4*	3,759
Val Verde, Tex.	49	65.2	44.6	31.6	25.5*	480
Webb, Tex.	102	93.1	46.5	39.9	38.0*	3,592

* Average Annual percent growth in 1978-1981 is between 162-225% of 1972-1978

** Average annual percent growth in 1978-1981 is 400% of 1972-1978

ϕ Significant reduction in average annual percent growth in 1978-1981 as compared to 1972-1978

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table II-6: Distribution of Non-Farm Earnings^{1/} by Industry for Selected Border Counties, 1976 and 1981.

T E X A S

County SMSA	<u>Hidalgo</u> (McAllen)		<u>Webb</u> (Laredo)		<u>El Paso</u>		<u>Cameron</u> (Brownsville)		<u>Brewster</u>		<u>Starr</u>		<u>Val Verde</u>		<u>Maverick</u>	
	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981
<u>Industry</u>																
Agriculture,																
Forest, etc.	3.6	4.2	0.5	0.3	0.1	0.2	3.9	2.2	NA	0.6	2.2	NA	0.0	0.6	2.4	1.8
Mining	3.3	4.2	5.4	9.0	0.2	0.3	0.4	0.8	NA	5.3	10.7	8.9	1.1	1.2	6.7	8.1
Construction	6.6	6.9	4.1	4.4	5.2	5.2	6.5	7.5	3.7	7.2	2.4	2.8	4.2	3.0	4.7	3.9
Manufacturing	9.3	12.1	6.2	6.2	17.2	20.2	17.2	18.8	0.8	0.6	0.2	1.0	5.9	5.4	17.4	11.9
Non-Durable	7.6	9.6	3.7	4.3	11.8	12.5	8.7	8.0	0.8	0.5	NA	NA	5.6	4.9	16.8	10.4
Durable	1.7	2.5	2.4	1.9	5.4	7.7	8.6	10.7	NA	0.1	NA	NA	0.3	0.5	0.6	1.5
Transportation	5.2	5.2	13.3	13.2	10.0	9.9	7.5	7.8	10.7	12.2	3.6	5.2	6.9	7.4	5.8	6.0
Wholesale Trade	9.9	9.3	7.0	6.5	6.4	6.6	7.6	7.7	3.0	1.3	2.2	3.5	1.5	2.2	7.3	5.1
Retail Trade	17.5	17.9	22.4	24.1	12.4	11.9	17.1	16.2	14.6	13.9	17.2	16.6	12.0	12.8	19.3	23.7
F.I.R.E.	3.5	3.8	3.9	4.2	4.2	4.3	5.6	4.8	3.9	2.5	1.7	NA	3.0	3.7	2.7	3.9
Services	13.6	13.3	14.8	13.5	14.1	14.7	14.5	15.7	11.6	11.4	14.1	11.5	7.1	7.8	7.3	7.9
Government	27.4	23.2	22.5	18.6	30.1	26.9	19.6	18.5	49.5	44.8	45.6	47.0	57.7	55.7	26.4	27.7
Federal	4.7	3.6	4.8	3.4	18.1	15.5	3.1	3.2	8.3	7.0	8.5	9.7	42.6	40.4	5.5	6.3
State	22.7	19.6	17.7	15.2	12.0	11.4	16.4	15.3	41.2	37.8	37.1	37.3	15.1	15.3	20.9	21.4

^{1/}By place of work

SOURCE: BEA Regional Economic Information System and OEA staff compilation.

Table II-6 (cont.)

County SMSA	ARIZONA								CALIFORNIA				NEW		MEXICO	
	<u>Cochise</u>		<u>Pima</u> (Tucson)		<u>Santa Cruz</u>		<u>Yuma</u>		<u>Imperial</u>		<u>San Diego</u>		<u>Dona Ana</u> (Las Cruces)		<u>Hidalgo</u>	
	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981
<u>Industry</u>																
Agriculture,																
Forest, etc.	0.3	0.6	0.4	0.3	NA	NA	NA	8.1	11.9	10.4	1.0	NA	1.3	1.9	0.3	NA
Mining	3.4	3.3	8.1	7.0	NA	NA	NA	0.2	0.1	1.1	0.2	NA	0.2	0.1	NA	NA
Construction	3.8	3.0	7.8	7.5	7.5	3.5	6.2	10.7	3.9	4.3	7.2	7.1	5.2	5.4	53.4	6.8
Manufacturing	7.8	10.1	9.9	16.5	10.8	12.4	4.8	5.3	8.2	6.3	14.4	17.1	5.1	9.3	4.5	54.9
Non-Durables	NA	2.6	2.3	2.2	6.0	4.3	2.7	3.1	5.4	4.1	2.5	2.8	2.8	4.3	NA	NA
Durables	NA	7.5	7.6	14.3	4.8	8.1	2.1	2.2	2.8	2.2	11.9	14.4	2.3	4.9	4.3	NA
Transportation	4.6	8.8	6.5	6.3	8.9	9.2	5.4	6.2	6.3	6.2	5.2	5.5	5.2	5.5	5.0	5.4
Wholesale Trade	1.5	1.4	2.7	3.3	14.6	16.5	6.2	6.2	7.2	7.7	3.5	3.9	2.7	2.8	2.5	2.9
Retail Trade	9.0	8.7	12.9	11.2	23.2	23.1	13.4	13.2	16.1	15.0	10.9	9.6	11.1	9.5	9.8	8.2
F.I.R.E.	1.6	1.8	4.1	4.5	4.1	4.0	2.6	2.6	2.9	3.3	4.5	5.6	3.1	3.8	1.6	1.5
Services	7.1	7.9	19.8	20.6	10.9	10.7	14.1	15.6	12.1	13.6	17.0	19.1	10.6	12.0	11.4	5.8
Government	60.8	54.4	27.6	22.9	20.0	20.6	43.2	31.9	31.1	32.1	36.1	31.0	55.5	49.8	11.7	13.3
Federal	48.9	42.1	10.0	7.0	6.1	8.8	29.4	19.1	7.0	5.9	22.4	19.6	32.5	26.2	2.4	2.3
State/local	11.9	12.2	17.6	15.8	13.9	11.8	13.8	12.8	24.1	26.2	13.8	11.4	23.0	23.6	9.3	11.0

Table II-7

Annual Growth Rates in Retail Sales
in Six Texas Border Counties, 1978-1981

<u>County (city)</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Cameron (Brownsville)	28.5%	21.6%	21.8%	19.3%
El Paso (El Paso)	12.3	15.0	17.3	20.4
Hidalgo (McAllen)	18.5	19.6	18.1	27.5
Maverick (Eagle Pass)	11.7	17.1	18.5	52.6
Val Verde (Del Rio)	10.9	22.0	17.2	14.2
Webb (Laredo)	15.9	22.5	44.1	21.8
Six County Average	16.5%	18.0%	20.8%	22.2%

Source: State of Texas Comptroller of Public Accounts

Table II-8
 Sales Tax Receipts for Large Texas Border
 Cities, 1979-1981 Calendar Years
 (in thousands)

	<u>Brownsville</u>	<u>El Paso</u>	<u>Laredo</u>	<u>McAllen</u>
1978	2,444.5	11,224.4	3,606.6	3,066.2
1979	2,856.7	11,796.5	3,965.0	3,321.6
1980	3,816.5	13,682.8	5,199.4	4,613.5
1981	5,015.5	15,914.9	6,884.2	6,318.8

SOURCE: Tax Allocation Section, Texas State Office of the Comptroller, special computer run of City Sales Tax Allocation Summary, May 12, 1983.

Table II-9. Distribution of Southwest Border State Finances by Source, 1981

	<u>California</u>	<u>Arizona</u>	<u>New Mexico</u>	<u>Texas</u>	<u>U. S.</u>
Intergovernmental					
Aid as % of General					
Revenues	26.4	20.9	19.4	23.0	27.4
Federal	25.8	20.1	18.8	22.8	26.3
Local	0.6	0.8	0.6	0.2	1.1
Own Source as % of					
General Revenues	73.6	79.1	80.6	77.0	72.6
Taxes as % of Own					
Source Revenue	85.4	81.3	59.1	76.9	79.9
Sales & Gross Rcpts.	38.4	48.4	33.3	47.3	38.8
Income (Personal)	27.5	16.6	3.6	----	21.8
Corporate	11.4	5.8	2.7	----	7.5
License	2.9	4.4	2.7	7.9	5.1
Property	3.0	5.7	0.5	0.1	1.6
Severance	0.1	----	16.2	20.7	3.4
Death	2.2	0.5	0.1	0.9	1.2
Other	----	----	----	----	0.5
Charges	7.4	10.6	7.1	8.0	10.0
Education	3.6	7.9	4.8	6.0	5.6
Hospital	2.1	1.7	1.7	1.6	2.2
Highway	0.3	----	----	0.1	0.7
Miscellaneous	7.2	8.1	33.9	15.0	10.1
Interest	3.9	5.2	13.2	5.6	5.2
Royalties	2.1	0.6	19.9	7.3	2.7

Source: State Government Finances, 1980-81, U.S. Department of Commerce, Bureau of the Census, Washington, D.C., Table 7.

Table II-10

Distribution of Local Finances by Source for Major Southwest Border Cities, 1981

	<u>Brownsville</u>	<u>El Paso</u>	<u>Laredo</u>	<u>McAllen</u>	<u>Tucson</u>	<u>San Diego</u>	Exhibit: Avg. for Cities <u>50,000-99,999</u>	Exhibit: Avg. for Cities <u>300,000-999,999</u>
Intergovernmental aid as % of Total General Revenues	45.1	33.5	7.9	18.8	46.2	31.2	31.9	39.3
State	1.6	1.5	1.2	0.9	21.8	13.1	18.6	17.9
Federal	42.3	30.6	6.6	18.0	22.1	15.8	11.7	19.6
Own Source Revenues as % of General Revenues	54.9	66.5	92.1	81.2	53.8	68.8	68.1	60.7
Taxes % of Own Source Revenues	52.6	55.1	50.4	47.7	73.9	50.5	62.7	62.8
Property	25.2	32.8	15.3	13.1	11.3	16.6	42.2	30.6
Sales	26.4	20.4	34.4	33.2	59.3	30.2	14.5	18.2
Income	-----	-----	-----	-----	-----	-----	2.3	8.9
Other	1.0	1.8	0.7	1.4	3.3	3.8	3.6	5.2
Charges	34.7	30.0	39.4	35.2	8.7	17.0	21.2	21.3
Miscellaneous	12.7	15.0	10.2	17.1	17.4	32.5	16.1	15.9
Population (1980)	84,997	425,259	91,449	67,042	330,537	875,504		

Source: City Government Finances, 1980-81, U.S. Department of Commerce, Bureau of the Census, Washington, D.C., Table 5.

III
RECENT EXPERIENCE OF THE BORDER REGION: PEOPLE;
BUSINESSES; GOVERNMENTS

Following the 1976 peso devaluation, Mexico's economy gained strength quickly. Huge oil finds, rising oil prices, and large foreign loans helped to drive that nation's real annual growth rate above 8% over the 1978-1981 period. At the same time, despite inflation averaging 24%, the Mexican government supported stable peso-dollar exchange rates. Buoyed by these developments, trade-oriented U.S. border economies enjoyed a period of extraordinary growth.

Gradually, however, as production cutbacks and energy conservation in the industrial nations stanching the flow of foreign oil revenues, the Mexican economy slipped into recession. On February 27, 1982, the government allowed the peso's value to drop by about 40% (to the equivalent of 2.1 U.S. cents), but the slide continued. On August 4, with inflation running at a 70% annual rate and foreign currency reserves near exhaustion, Mexico devalued its currency again -- to an official rate of 1.43 U.S. cents.

In concert with this second devaluation, Mexican banks were nationalized. Some \$12 billion in foreign currency accounts, much of it in dollars held by U.S. businesses and investors,

was converted into pesos, and a 5000 peso limit (about \$70 at official rates) was set for funds leaving the country. In addition, affluent Mexicans who had invested abroad to escape soaring domestic inflation were encouraged to liquidate foreign holdings and bring their money home.

Unable to service its large foreign debt, Mexico asked its commercial bank creditors to accept a 90-day roll-over for most public sector payments coming due. Interim financial aid, largely from the U.S., gave the new de la Madrid government time to arrange a three-year \$3.9 billion IMF debt refinancing and retirement program. Despite these developments, pressure on the peso continued. In December, the peso's value was allowed to fall again -- to a rate of .67 U.S. cents (80% less than in January 1982).

In many U.S. border areas, the impact of devaluation was swift and severe. As retail and to a lesser degree wholesale and manufacturing sales dwindled, chronically high unemployment and poverty rates rose higher still. In those localities most heavily dependent on retailing, vacant storefronts began to appear on once bustling downtown shopping streets and in outlying malls. And city and county officials wrestled with declining revenues at the same time that economic hardship and swelling immigration increased demands on public services.

However, the effects of devaluation have varied across and within jurisdictions. Large, economically diverse border cities seem to be coping with these effects better than smaller cities which depend heavily on retail trade. And even in the latter cities, some segments of the trade sector have shown more staying power than others. According to local observers, most of the early business casualties were new arrivals, products of the post-1976 expansion; while many larger, more established, and better financed retailers seem likely to survive, barring further currency shocks.

Underlying the question of when border retailing will recover is a more fundamental question about the importance of strong retail sectors to the border communities at large. Part II indicates that new employment in retailing during 1978-81 contributed substantially to keeping overall employment growth on a par with population growth in many border localities. But Part II also shows that even in the midst of the pre-devaluation retailing boom, many people in many of the border counties were among the least privileged of all Americans. Thus, restoring the region's trade sector to a status quo ante, even if it could be done quickly, would be only part of an answer to border problems.

A. Aggravated Problems of IndividualsUnemployment

Except for the two heavily agricultural counties on the Arizona-California border (Yuma and Imperial), seasonally unadjusted jobless rates throughout the border region appear to have peaked in March 1983. (See Table III-1.) In most counties, however, April rates remained far above those for the preceding April -- e.g., in Laredo 14.4 percentage points; in McAllen, 7.2; and in Santa Cruz County (Nogales), 8.8. Higher unemployment along the entire border, and continuing deterioration in Yuma and Imperial Counties, would be matters of concern taken by themselves. In many cases, however, these increments have served to boost unemployment levels that in April 1982 were already extremely high -- e.g. 28.6% and 16.5% in Imperial and Yuma, 28.8% in Maverick, 13.0% in Laredo, 11.8% in McAllen, and 10.8% in Brownsville.

Among the Texas SMSA's, the sharpest rises in unemployment (and, in relative terms, the smallest April improvements) have been registered in Laredo, McAllen, and Brownsville, in the Lower Rio Grande Valley. Increased joblessness has been similarly acute in those rural counties of the Lower Valley (e.g. Maverick and Val Verde) and of the western border region (e.g. Imperial) which have sizeable border towns.

In some areas less dependent on Mexican trade, devaluation has compounded the unemployment effects of other problems -- e.g. poor harvests, low crop prices, and reduced mining operations. In the first quarter of 1983, unemployment insurance claims at Employment Service offices in Yuma and Douglas, Arizona were 63% and 122% above first quarter 1982 levels, and job orders had fallen. At Calexico, initial unemployment insurance (UI) claims for October 1982 to January 1983 were 45% above levels recorded the year before. Initial UI claims per month were up 39% in February-April 1983 over the previous four months. And job orders had declined by two-thirds.

Despite these developments, average annual unemployment rates in most border counties for the two devaluation years, 1976 and 1982, were roughly comparable. (Only the trade-oriented counties of the lower Rio Grande Valley and the farming counties along the Arizona-California border had significantly higher 1982 rates.) In 1976, however, Mexico's rapid recovery--owing to the development of its oil wealth and easy access to foreign credit -- soon spurred new growth on the U.S. side. In the current circumstances, Mexico's near-term prospects are less promising. Moreover, even if recovery on both sides of the border were rapid, high structural unemployment would persist in many U.S. border localities.

Poverty

Agency data on the numbers of people receiving and seeking public assistance (e.g. Federal AFDC and SSI; and state/local General Assistance) seem to indicate increased poverty in those portions of the border region where poverty levels were already among the nation's highest, and a new incidence of poverty in areas that had been relatively better off. In addition to peso devaluation, much of this deterioration may also reflect the extended U.S. recession and difficulties in the farm sector. (See Table III-2 for a description and comparison of assistance programs in southwest border states.)

As a general rule, periods of economic decline affect AFDC roles only indirectly, as single wage-earner parents lose their jobs or increased hardship induces eligible non-recipient families to apply for help. In some states, however, families can qualify for AFDC when a principal wage-earner parent becomes unemployed. California is the only border state with such an eligibility provision, which may help to account for the fact that AFDC applications in California's border counties in January 1983 were up 15.6% compared to the previous March, while in the state at large -- owing perhaps to stricter Federal eligibility standards -- applications were off by 5.6%. Texas AFDC program staff report that client applications have

also increased sharply in that state, and that in some instances emergency staff have been hired to process aid requests. (However, this report is at odds with official HHS information, which shows only a 2% March-to-March increase in AFDC applications in the border counties.)

AFDC applications in Arizona's border counties were down 1.9% in March 1983 compared with the previous March, because of a sizeable decline in Pima County (Tucson). However, applications registered large percentage jumps on small numerical bases in Santa Cruz and Cochise Counties, and in three of the five New Mexican border counties (Dona Ana, Grant, and Hidalgo).*

*Increased poverty may also be reflected in the number of people receiving and applying for Supplemental Security Income (SSI), assuming that increased economic hardship induces eligible non-recipients to apply for help. HHS reports that SSI caseloads declined 4% nation-wide in March 1983 compared with March 1982, owing possibly to tighter controls over redeterminations. This pattern is reflected in both state-wide and border county statistics for California and Arizona. New Mexico and its border counties each show an increase of only about 3%. By contrast, the SSI recipient population grew by 10% in Texas border counties (compared with a state-wide increase of 3.2%); and applications were up 21% (compared to 18% for the state at large).

Also, since early 1982, despite stiffer eligibility criteria, food stamp recipients have increased 28% in Eagle Pass, 15% in Douglas, and 36.8% in Nogales.

In addition, California, Arizona, and New Mexico provide General Assistance (GA) -- i.e. emergency health and social services -- to indigents who do not qualify for, or have exhausted their claims on, other kinds of governmental aid. In March 1983, there were 37.2% more GA recipients in San Diego County than in the previous March, and 13.4% more applicants. (HHS states that this is largely a result of time-expired refugee cases). Sharp percentage increases were also registered in Arizona's Yuma County and in several of the New Mexican border counties, though the numbers involved were small.

B. Recent Developments in the Regional Economy

Declining Border Traffic

Northbound traffic on the Rio Grande bridges at Brownsville, Laredo, and El Paso was relatively unaffected by the peso devaluation of February 1982. By contrast, August traffic totals fell well below July's in virtually every category (pedestrians, cars, buses, and trucks) at every crossing point, with further declines in September and gradual improvement thereafter. Seasonal factors probably mask the effect of December's devaluation relative to November. Compared with the preceding December, however, 53% fewer pedestrians and 32% fewer automobiles crossed the border at Laredo. Comparable declines at

Brownsville were only 2% and 14%; and at El Paso, 19% and 4%. As in the case of August's devaluation, the first months of 1983 seem to have brought a partial recovery in traffic flows at all three crossing points.*

Declining Sales

Peso devaluation had an immediate and substantial impact on retail trade north of the border. Hardest hit were the Texas cities of Brownsville, McAllen, Laredo, and Eagle Pass; Douglas and Nogales in Arizona; and Calexico and San Ysidro in California. But the effects were felt all along the border, and further north in San Antonio, Las Cruces, Tucson, El Centro, and San Diego.

Declines in retail sales during 1982-83 seem especially sharp, because they came on the heels of several boom years. Retail sales in Brownsville during March 1982 were 23.7% below March 1981 levels; in El Paso, they were down 15.8%; in Laredo, 23.2%; and in McAllen, 13.2%. (Nationally, year-to-year retail sales were up 0.8% in March 1982.) In succeeding months, the rate of decline in retail sales stabilized or improved until August's

*Overall, traffic flows have been off at other border crossings as well. In the first five months in 1983, border crossings in Douglas were down 21% from the same period in 1982. In Calexico, pedestrian traffic has declined by about 8%, while vehicle traffic is down by more than 6%.

devaluation sent sales plummeting once more. The cumulative devastation from all three 1982 peso devaluations is evident in year-to-year sales comparisons for the first quarter of this year. In January and February, retail sales were down by nearly two-thirds in Brownsville, by almost 60% in Laredo, by 42% in McAllen, and by an average of 24% in El Paso. March declines were lower, probably because sales in the base period (March 1982) were affected by the February devaluation. Comparably dramatic declines occurred in the smaller Texas border town of Eagle Pass, as well as in Nogales, Douglas, Calexico, and San Ysidro.

In 1982, manufacturing sales in the border region were affected by the general U.S. recession, as well as by developments in Mexico. Sales in El Paso were down 11% in the first quarter of 1982, compared with first quarter 1981, and down comparably through the rest of the year. Brownsville and Laredo both experienced large year-to-year increases in manufacturing sales in the first quarter of 1982, and declines in all subsequent quarters. And McAllen suffered increasing declines throughout the period. (See Table III-4.)

A pattern of overall decline was also apparent in wholesale trade. All Texas SMSA's experienced significant increases in wholesaling during first quarter 1982, compared with 1981. In El Paso, year-to-year increases continued through the third quarter,

followed by a sharp decline. In Brownsville and McAllen sales were down during each of the last three quarters of 1982, with declines reaching 23% and 43%, respectively, in the final quarter. In Laredo, sales grew 12% during the second quarter, but fell by an average of 27% in the third and fourth. (See Table III-5.)

Aggregate sales for all Texas border SMSA's were greater in the first quarter of 1982 than in the first quarter of the previous year. In subsequent quarters, however, all SMSA's sustained increasing declines, ranging in the fourth quarter from 13% in El Paso to 49% in Laredo. Annual declines in total sales ranged from about 7% in El Paso to 27% in Laredo. (See Table III-6.)

Other Business Indicators

Peso devaluation, and currency restrictions in Mexico, affected other segments of the border economy as well. In McAllen, the value of building permits issued in the first quarter of 1983 was 24% below the comparable period in 1982. (The decline would have been closer to 85%, if \$30 million of permits for a new hospital were excluded from the totals.) And the value of permits in Laredo declined by more than 56%.

Export shipments, measured by the number of loaded rail cars, plunged by 86.5% in El Paso, and 65.8% in Laredo, during the

first quarter of 1983, compared with the previous year. Export shipments by loaded truck declined in all major Texas border cities, with the setbacks ranging from 75.0% in El Paso to 46.5% in Brownsville. Freight shipments in Douglas are off 40% compared with this time last year.

In addition, hotel/motel occupancy rates were down by about 25% in Brownsville and El Paso during the first quarter of 1983; and McAllen (34.3%) and Laredo (37.7%) experienced even steeper declines. In Douglas, occupancy rates are off by an estimated 50% since January 1982.

Business Failures in the Border Region

Between 1981 and 1982, the number of store closures (i.e., stores no longer collecting sales taxes) increased by 5.5 % in McAllen, 7.0% in El Paso, 18.4% in Brownsville, and 19.5 % in Laredo. In the first five months of 1983, however, business failures actually have decreased between 20% and 50% in all four SMSA's, possibly because the peso has stabilized somewhat, but also because the principal effects of devaluation on retailing were registered quickly. (The number of store closures in September 1982 in Brownsville was 80% greater than in September 1981; in McAllen the increase was 27.3%; in Laredo 41.5%; and El Paso 17.4%.)

Other jurisdictions have experienced substantial business failures over the past eighteen months. Eagle Pass reports 25 store closures. Since January 1982, 36 stores have shut their doors in Douglas -- 11 % of all retail establishments in that city. Calexico had 35 closings in 1982, and 15 in the first five months of this year.

According to local observers, failures in 1982 were largely confined to "marginal firms" that had sprung up in response to extraordinarily favorable exchange rates during the 1978-81 period. However, another devaluation or an indefinite extension of the current situation would force closures among more established firms, as well.

C. Local Governments

Heavier than average dependence on sales tax revenues leaves border communities especially vulnerable to fluctuations in retail sales. During the first five months of 1981, local sales tax receipts for the four Texas border cities were an average of 57.3% higher than in the comparable period of 1980. Reflecting the first peso devaluation, sales tax revenues in these cities during the first five months of 1982 were only 15.5% greater than revenues the year before. For the first five months of 1983,

sales tax receipts for these cities fell an average of 37.4 percent from their 1982 levels. Laredo has had the largest percentage decline, 51%; and El Paso the smallest, 13.0%. Declines in Brownsville and McAllen have exceeded 40%. (See Table III-7.)

Other border jurisdictions have experienced similar problems. In Eagle Pass, sales tax revenues in FY 83 are down nearly 50%, compared with FY 82. In Douglas and Nogales, the declines are 27% and 36%, respectively, and Calexico's sales tax revenues are off about 40%.

The peso devaluations, and Mexican currency restrictions, have also affected local property values and tax collections. In Laredo, for example, residential property values have fallen 20% since August 1982. Decreases may be even greater for commercial property, where values are often determined by an income capitalization approach. The Mayor of Douglas estimates that residential property values there are down by 20%-30%, and that commercial property values are off as much as 50%.

As business revenues have fallen and unemployment has increased, tax delinquency has become more common. In McAllen, the collection rate has declined by 3 to 4 percentage points. In Brownsville, collection rates are running about 15% behind last

year. In Laredo, local officials are making a concerted effort to improve their historically low collection rate in an effort to offset declining property values.

Declining traffic on the principal Rio Grande bridges has also sapped the fiscal strength of some Texas border cities. In McAllen, toll revenues are off 17% in this fiscal year, compared to the comparable period in FY 1982. In Laredo, toll revenues have fallen by nearly 25%.

Although revenues have declined, demands on municipal services have not. The Governor of Texas reports that human service programs (e.g. hospital indigent care, child welfare/protective services and abuse shelters) in Brownsville and McAllen SMSA's are acutely overburdened. The demand for human services in Cameron County (Brownsville) is reportedly five times the county's current human services budget. And local governments all along the Texas border report considerable increases in demands for emergency food, clothing, and shelter owing to the growing presence of undocumented immigrants.

Falling revenues and heavier service demands have forced local officials to make hard choices. In several border cities, pay raises have been eliminated, and vacancies go unfilled, and capital expenditures have been postponed. Laredo has cut 217 positions from its general fund expenditures; McAllen has laid

off 27 employees; and other jurisdictions are contemplating such reductions (e.g., Cochise County plans to lay off 40 of 480 county employees; Calexico has cut several positions from government roles).

D. Prospects for Recovery in the Mexican Economy

Recovery in much of the U.S. border region is linked to developments in Mexico. Border city merchants and bankers seem to agree that much of the damage resulting from last year's devaluations has been done, though future deterioration is likely if the peso is devalued again.

Short-term prospects for the Mexican economy are clouded. President de la Madrid's government seems firmly committed to meeting the terms of Mexico's IMF agreement. Mexico's large budget deficit is expected to decline sharply in 1983, and more gradually thereafter; while peso devaluation and a lack of foreign credit should reduce current account deficits.*

*Arrangements have been made with foreign commercial banks to restructure most of the country's \$57 billion (\$9 billion short term) public sector debt coming due before December 1984. In addition, initial payments (\$60 million) on \$900 million of private sector interest arrearages began in February.

On the negative side, lower oil prices and the stern self-discipline required by the IMF agreement make a rapid return to 1978-81 growth levels unlikely. In real terms, Mexican GNP declined by about 1% in 1982, and may decline by 3%-4% this year. Positive growth rates may not return until 1985. Inflation, which averaged nearly 100% in 1982, is expected to decline through 1983, to an annual average of 75%. Renewed softening of world oil markets, or a failure of fiscal discipline and continued hyperinflation, would subject the peso to substantial additional pressure.

Forward currency markets reflect uncertainty about the peso's future. Wide spreads persist between bid and offer rates, and activity has been sparse. Bid rates for six-month delivery are running at about 165:1, and offer rates at about 198:1; with the bid and offer rates for twelve-month delivery running at 180:1 and 215:1. These ranges actually indicate some strengthening of confidence in the peso. Earlier this year, twelve-month offer rates were as high as 300:1.

One bright spot in this generally uncertain picture is the fact that Mexico's northern border states are stronger economically than the nation at large. This is at least partly because of the roughly 600 U.S.-owned factories (maquiladoras) operating at or near the border as part of the U.S.-Mexico twin-plant program.

Wages earned in the maquiladoras are frequently spent in stores on the U.S. side. The twin-plant system should prosper in the near term because devaluation has reduced the cost of Mexican labor to U.S. firms. In addition, the new Mexican government seems more favorably disposed toward maquiladoras than was its predecessor.

Overall, however, the best that can be expected from the Mexican economy in the near term is that fiscal discipline and declining inflation will persist, and that exchange rates will remain relatively stable, all this accompanied though by little or no real growth. For those U.S. border localities that have been most dependent on retail sales, therefore, short-term recovery prospects are discouraging. Indeed, even if recovery in Mexico began much sooner, and were much stronger, than current conditions indicate, exchange rate policies adopted by the de la Madrid government as part of its agreement with the IMF would work against rapid restoration of the pre-devaluation status quo on the U.S. side.

Table III-1: Unemployment Rates, Selected Border Counties

	April 1982	March 1983	April 1983	Change in Percentage Points	
				April 1982 to April 1983	March to April 1983
San Diego, Cal.	8.1	9.6	8.6	0.5	-1.0
Riverside, Cal.	10.9	12.4	11.5	0.6	-0.9
Imperial, Cal.	28.6	31.3	33.8	5.2	+2.5
Yuma, Arizona	16.5	17.7	20.4	3.9	+2.7
Pima, Arizona	8.0	11.4	10.4	2.4	-1.0
Santa Cruz, Arizona	13.7	22.9	22.5	8.8	-0.4
Cochise, Arizona	11.0	13.8	12.7	1.7	-0.5
Dona Ana, N.M.	8.8	9.7	9.2	0.4	-0.5
Val Verde, Texas	13.5	18.7	17.2	3.7	-1.5
Maverick, Texas	28.8	39.9	37.5	8.7	-2.4
El Paso, Texas	10.3	13.6	12.5	2.2	-1.1
Cameron, Texas	10.8	17.0	16.3	5.5	-0.7
Hidalgo, Texas	11.8	20.5	19.0	7.2	-1.5
Webb, Texas	13.0	28.9	27.4	14.4	-1.5

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table III-2: COMPARISON OF ASSISTANCE PROGRAMS
SOUTHWESTERN BORDER STATES

	<u>AZ</u>	<u>CA</u>	<u>NM</u>	<u>TX</u>
<u>Welfare Programs</u>				
Maximum Aid Payment - AFDC Family of 4	\$282	\$601	\$187	\$140
AFDC Unemployed Parent Program	no	yes	no	no
Statewide General Assistance Program	yes	yes	yes	no
SSI State Supplementary Payment (SSP)				
Mandatory SSP	yes	yes	yes	no
Optional SSP	no ³	yes	yes ⁴	no
<u>Medical Assistance Programs</u>				
Medicaid Medically Needy Program ⁵	6	yes	no	no
Medically Indigent Program ⁷	6	yes	no	no

1. States may have eligibility for AFDC on the basis of the principal wage-earner parent being unemployed.

2. State supplementary payments are required by law to maintain income levels of former public assistance recipients transferred to the Federal SSI programs. States may also choose to provide additional supplements to both former public assistance recipients and new SSI eligibles.

3. Arizona has a very small State-administered SSP for certain limited categories of SSI recipients (probably less than 2% of the caseload)

4. New Mexico has a State-administered SSP for SSI recipients living in licensed residential adult care facilities.

5. States may have eligibility for individuals who meet all criteria for categorically needed assistance with the exception of income and who have incurred relatively large medical bills.

6. Arizona has no Medicaid program. Instead, the State is operating a statewide demonstration with Federal financial participation under which low-income persons are served through contract providers selected in a competitive bid process.

7. The medically indigent is a State medical assistance program where the State defines eligibility and benefits are solely State funds.

Table III-4: Change in Manufacturing Sales, 1981 to 1982

	1st Qrt.	2nd Qrt.	3rd Qrt.	4th Qrt.	Total
Brownsville	+73.0	-6.6	-13.3	-4.5	-0.9
El Paso	-11.1	-33.2	-17.9	0.0	-15.8
Laredo	+74.6	-30.1	-31.7	-38.8	-11.0
McAllen	-6.5	-7.5	-17.9	-32.0	-17.0

Table III-5: Change in Wholesale Trade Sales, 1981 to 1982

	1st Qrt.	2nd Qrt.	3rd Qrt.	4th Qrt.	Total
Brownsville	+11.4	-4.5	-14.5	-23.0	-10.4
El Paso	+8.7	+5.7	-7.5	-16.8	-1.7
Laredo	+18.6	+11.8	-31.4	-22.4	-10.1
McAllen	+15.9	-16.3	-30.6	-43.2	-22.9

Table III-6: Change in Total Gross Sales, 1981 to 1982

	1st Qrt.	2nd Qrt.	3rd Qrt.	4th Qrt.	Total
Brownsville	+18.2	-3.7	-14.8	-18.5	-8.2
El Paso	+0.4	-8.1	-8.0	-12.7	-7.5
Laredo	+9.0	-16.7	-37.6	-49.3	-26.8
McAllen	+12.1	-5.6	-20.2	-33.4	-13.9

Table III-7

Sales Tax Receipts, January thru May 1979-1983

	1979	79-80 Percent Change	1980	80-81 Percent Change	1981	81-82 Percent Change	1982	82-83 Percent Change	1983
Brownsville	\$ 898,347	47.0	\$1,320,668	58.9	\$2,098,863	16.5	\$2,445,478	-43.9	\$1,373,051
El Paso	\$3,976,856	24.2	4,940,976	39.7	6,904,800	7.9	7,452,502	-13.0	6,481,456
Laredo	1,306,546	35.4	1,769,238	66.2	2,940,517	11.9	3,290,762	-51.2	1,604,679
McAllen	1,097,099	48.7	1,631,208	64.3	2,680,588	25.8	3,372,849	-41.3	1,978,915
Average		38.8		57.3		15.5		-37.4	