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Comprehensive Migration Policy Reform in North America: The Key to Sustainable and Equitable Economic Integration

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Executive Summary

> The long term solution, however, for immigration is for Mexico to be prosperous enough to grow a middle class where people will be able to find work at home. And I remind people all across our country, family values do not stop at the Rio Bravo. There are people in Mexico who have got children who are worried about where they are going to get their next meal from. And they are going to come to the United States, if they think they can make money here. That's a simple fact. And they're willing to walk across miles of desert to do work that some Americans won't do. And we've got to respect that, it seems like to me, and treat those people with respect.
>
> President George W. Bush, August 24, 2001[1]

At the beginning of the 21st Century, North American economic relations are entering a new and potentially critical phase in their long history of inequality. Linked for over 150 years though trade, investments and migration flows, the wide income disparities between workers across borders have remained virtually unchanged decade after decade. Unlike other regional integration experiences in different parts of the world, most notably Europe in the postwar era, the policies that have regulated U.S. and Mexico trade and migration relations have consistently failed to produce convergence between economies and their workers. Much of this analysis for the United States and Mexico can also be extended toor "Greater North America", including Canada, Central American and the Caribbean Basin.[2]

The newly elected Presidents of the United States and Mexico have recently pledged to work together to close income gaps between the two countries.[3] Towards this end, both countries have acknowledged the need to address migration in a joint and comprehensive manner. This is a welcome and long overdue development. In the absence of an explicit goal to reduce inequalities, historical experiences and economic theory show us that increased trade and immigration can actually lead to increased inequalities. The shift of emphasis by the United States and the Mexican Presidents is

[1] http://www.whitehouse.gov/news/releases/2001/08/20010824.html
[2] Raul Hinojosa (Editor) "Greater North America", Journal of North American Economics and Finance. 1999.
[3] "After Consultation with our Canadian Partners, we will strive to consolidate a North American economic community whose benefits reach the lesser-developed areas of the region and extend to the most vulnerable social groups in our countries." Towards a Partnership for Prosperity, The Guanajuato Proposal, February 16, 2001. San Cristóbal, Guanajuato. A joint communiqué issued after the February 16 meeting of Presidents George W. Bush and Vicente Fox. (http://www.presidencia.gob.mx/?P=2&Orden=Leer&Tipo=Pe&Art=548)

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reflective of a growing sensitivity around the world towards rethinking immigration and trade policies in a way that focuses greater attention on how greater economic exchange can be used as a force towards greater upward convergence of income levels. A move towards such a goal setting could have major implications not only for US-Mexico relations, but also for the way that the United States thinks of migration and trade relations with developing countries around the world.

In the last few months, the Mexican Government has put forth a new comprehensive proposal that consists of five components:[4]

(1) legalization of undocumented workers currently in the United States
(2) expanded permanent visas program
(3) enhance guest worker visas program
(4) border control cooperation
(5) economic development in immigrant sending regions

Mexican Foreign Minister Jorge Castañeda has presented these five components as an integral project, suggesting in fact that the United States should agree to "the whole enchilada, or nothing." The Mexican Government's comprehensive proposal clearly represents a major improvement over the current patchwork of polices that have accumulated over the years in both countries. Many of these policies are both highly ineffective and contradictory in addressing with the economic dynamics operating between the two countries.

The objective of this report by the UCLA North American Integration and Development (NAID) Center is to analyze how the current set of migration policies between the United States-Mexico can be jointly reformed in order to provide for greater growth and equity across both countries. In the context of increased trade under NAFTA, the current set of U.S.-Mexico migration polices actually compound negative consequences of integration for low-wage workers. Specifically, current anti-immigrant policies work against the attempted goals of NAFTA to "export goods and not people" because they facilitate the exploitation of cheap undocumented labor in the United States, thus reducing the movement of low-wage investment to Mexico. While producing net benefits for U.S. consumers and taxpayers, the current combination of policies ironically facilitate the growth of demand for undocumented workers in substandard labor conditions, thus perpetuating dependence on low-wage migration by both U.S. employers and Mexican migrant sending communities.

The research in this report supports the conclusion that real comprehensive immigration reform, based on broad legalization of undocumented migration to the United States and targeted economic development investments in immigrant sending regions in Mexico, is the best option for generating prosperity and equity in both countries. The research conclusions of this report also suggest that the possibility exists for the emergence of a new consensus between labor unions, businesses, immigrant rights

[4] Jorge Castañeda, Mexican Secretary of Foreign Affairs, Speech before Hotel Employees and Restaurant Employees International Union, National Convention, Los Angeles, Ca., July 17, 2001.

groups, environmentalists and advocates for U.S. born low-wage workers. These findings create common ground for a workable proposal focused on sustainable economic integration in North America.

This report represents a first attempt to take stock of the new historic policy choices facing the two governments, and evaluate various positions and scenarios, including the new comprehensive Mexican proposal, within a common analytical, empirically based framework. We explore three major alternative scenarios and their impacts on both countries:

(1) **Maintaining the Status Quo:** Current U.S.-Mexico migration policies produce important net benefits for the United States economy and taxpayers, yet at a cost of high exploitation of undocumented workers, tragic human costs at the border, and the continued dependence on low-wage migration by Mexican communities and U.S. employers.

(2) **More restrictive immigration policies and a "Neo-Bracero" program:** This approach would only worsen the living standards of workers and would ironically increase the demand for more low-wage undocumented immigration.

(3) **An alternative comprehensive bi-national policy approach:** Combining legalization of current and future Mexican migration with investments in immigrant sending regions in Mexico, is by far the best alternative for sustaining growth in the United States and reducing income inequality both within the United States and among countries of North America.

This report presents the results of a comparative economy-wide impact study of these three alternative policy approaches within a Computable General Equilibrium or CGE model. As can be seen in different historical experiences and within the theoretical literature, trade and migration can either lead towards greater regional convergence or divergence of income levels, depending on the interplay between initial conditions and policy strategies. CGE models are particularly useful for analyzing the full economy-wide effects of different patterns of integration though trade and migration and how they can lead to a variety of outcomes in terms of income distribution and growth among countries.

The NAID-CGE model presented here is used to analyze both the current economy-wide dynamics of North American integration and income distribution, as well as how North America could evolve under alternative future policy reform scenarios. The current dynamics include a vicious cycle which facilitates the meeting of U.S. demand for low-wage labor with undocumented workers, generating underground labor markets with few rights and lower wages, further increasing the demand for exploitable labor, and thus perpetuating dependence on underpaid undocumented migration by U.S. employers and Mexican communities.

The NAID-CGE model shows how North America now has the opportunity to establish a "Win-Win" policy environment where the legalization of undocumented workers allows them to exercise their full labor rights, actually raising the competitive wage level in the immigrant labor market for current and future workers, and thus reducing the growth in demand for previously super-exploitable immigrant labor. This scenario is the best outcome for both the United States and Mexico because the legalization of the undocumented labor force raises immigrant wages, productivity, consumption and tax revenue in the United States, while investments in immigrant sending regions in Mexico reduces the out-migration of vital human capital resources, allowing for employment and wage growth in the second largest trading partner of the United States.

The remainder of this report is divided into three sections, each of which analyzes the three main policy options/scenarios.

Scenario 1: Maintaining the Current Policy Status Quo

The current set of migration policies between the United States and Mexico can be shown to produce a major net plus for the United States economy and taxpayers, but at an extremely high cost of human suffering at the border, exploitation of undocumented workers by U.S. employers, and high levels of U.S. income equality. Current policies end up producing a dependence on low-wage migration by many U.S. employers and Mexican immigrant sending communities. The major dynamics of the current system include:

(a) Mexican immigration represents a net gain for the United States economy, providing a complementary source of labor and skills and a transfer of vital resources from Mexico, yet perpetuating income inequalities and low-wage migration between the two countries;
(b) Restrictive U.S. border and visa policies perpetuate a pattern of labor and human rights violations, which ironically increase demand for undocumented migration and border smuggling rings;
(c) U.S. taxpayers receive net fiscal benefits, both from Mexican immigrant taxpayers in the United States as well as Mexican taxpayers in Mexico; and
(d) A lack of an adequate U.S.-Mexico remittance savings systems results in high financial transfer costs and a lost opportunity to make immigrant sending regions economically self sustaining.

The NAID CGE model estimates that the current levels of undocumented migration from Mexico (3 million workers) represent a contribution of $154 billion to the Gross Domestic Product of the United States, including $77 billion to the Gross State Product of California. This is a conservative estimate based on the lower end estimates of the undocumented workforce. More recent higher end estimates of 4.5 million Mexican undocumented workers could push the aggregate contribute to approximately $220 billion.

The model also indicates that the current combination of migration and trade policies produce net gains for higher-income groups in both the United States and Mexico, while also producing an under-paid undocumented labor market, as well as negative trade impacts on low-wage employment in both the United States and Mexico by NAFTA. Current migration and trade policies are thus resulting in a growing gap between higher and lower income groups in both countries, which is also increasing the demand and supply of undocumented migration under deteriorating conditions for low-wage migrant labor on both sides of the border.

With respect to fiscal impacts of migration we also include calculations of how much Mexican taxpayers spend on educating Mexicans who migrate without documents to the United States for their prime working years. Conservatively estimated, the United States Government should pay a total of at least $ 320 million a year, and the state of California should pay al least $180 million, to the Mexican government for preparing a large part of its work force. The Mexican taxpayers are actually providing the United States and California with a fantastic bargain for educating its future workforce. If the United States and California had to educate these same workers domestically, to meet current labor market demand, it would cost the United States more than $17 billion more per year.

Scenario 2: More Aggressive Anti-immigrant Policies and a "Neo-Bracero" Program

The extreme of this restrictionist policy scenario could prove disastrous for the United States economy, and at best would only worsen the living standards of low-wage workers, which ironically increases the demand for more undocumented immigration. The NAID Center CGE Model results for these scenarios include:

(a) Adopting extreme anti-immigrant policy recommendations (such as those of the Center for Immigration Studies or Proposition 187) would result in a dramatic drop in U.S. economic activity. A reduction in the undocumented Mexican immigrant population to zero would produce a dramatic drop in U.S. economic output (about $155 billion). This would also produce negative effects on the United States fiscal balance as well as severe negative impacts on Mexican wages and income inequality. These negative effects would of course be much larger using estimate of higher numbers of undocumented workers.

(b) Adopting a neo-Bracero program (as proposed by Senator Phil Graham) that would further segment the labor market and lock in lower wages, would actually increase the demand for more low-paid undocumented labor. Further restrictions on immigrant rights that produces a reduction in immigrant wages would actually result in an increase in demand for low-wage immigration. While producing short term benefits to U.S. consumers, this would also result in long term reductions in productivity-enhancing investments in the United States and more dependence on even lower wage migration from Mexican rural communities.

Scenario 3: A New Comprehensive Bi-National Approach

The UCLA NAID report supports the conclusion that real comprehensive immigration reform, based on broad legalization of undocumented migration stock and future flow combined with targeted economic development investments in immigrant sending regions in Mexico, is the best option for generating prosperity and equity in both the United States and Mexico. The research conclusions of this report also suggest that the possibility exists for the emergence of a new consensus among labor unions, businesses, immigrant rights groups, environmentalists and advocates for U.S.-born low-wage workers, creating a common focus on a workable proposal for sustainable economic integration in North America.

The NAID Center modeled a alternative policy scenario, including a "maximalist" version of the comprehensive proposal put forward by the Mexican Government, defined by President Fox as "the maximum level of benefits for the largest number of people." We consider the impact of such a comprehensive approach as having essentially two major aspects: one dealing with the **Demand side** of immigration (U.S. policies for legalization, visas and guest workers) and one dealing with the **Supply side** of out-migration (economic development in immigrant sending regions).

The results show that the maximalist versions of a combined demand and supply side policy response can produce dramatic results in terms of growth and equity for both countries. On the demand side, a broad legalization program that guarantees full labor rights to all current and future migrants has the best effect in terms of meeting U.S. labor demand with higher wages, lower inequality and higher productivity. On the supply side, the larger the level of investments in Mexico's migrant sending regions, the more rapidly the wage gap closes with the United States, migration declines and is replaced with Mexican demand for U.S. exports.

Demand side:
Full Legalization of Stock and Flow of North American Undocumented Migration

On the demand side, we model (1) the full legalization of the current stock of undocumented workers, and (2) the creation of a New Worker Visas Program for future flow of temporary and permanent immigrant workers. A New Worker Visas Program is envisioned to include with full labor rights, job portability, and a legalization, sufficiently large to meet U.S. labor demand needs. Unlike the IRCA legalization which was applied to only a portion of the current stock of undocumented immigrants, the New Worker Visas Program would also include a future oriented visa program needed in order to avoid re-plenishment of undocumented population.

In this report, we consider two demand side policy changes as the basis for running this set of scenarios in the NAID CGE Model.

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(1) Legalization of the stock of all undocumented immigrants

- Provide legal immigrant status to all current undocumented immigrants from Mexico (approximately 3 - 4.5 million)

- Provide legal immigrant status to all current undocumented immigrants from all countries (approximately another 3- 4.5 million)

(2) Legalization of the future flow of immigrant workers through the establishment of a New Worker Visas (NWVs) Program

- Make available an adequately large number of New Worker Visas based on historical levels of net new undocumented workers (300,000 a year from Mexico, for example).

- NWVs would have the following characteristics:
  -renewable annually, based on evidence of employment, tax payments, and no criminal record
  -multiple re-entry, to allow for circularity of migration
  -full labor rights, full portability across jobs
  -path to legalization after five years of employment
  -require workers to make full social security and unemployment payments
  -no access to means tested social services during visa period

The report makes the case that a NWVs based legalization of the stock and flow will likely result in similar dynamics as those produced by IRCA. The impact of IRCA can be analyzed via the information published in 1996 by the United States Department of Labor based on an extensive survey on "Characteristics and Labor Market Behavior of the Legalized Population Five Years Following Legalization."

(1) Increase in wage levels for the undocumented immigrant labor markets.[5]

A NWVs program would have the effect of setting a new floor for institutional competitive labor market, thereby generating a decrease the demand for low-wage/easily exploitable undocumented labor. A legalization of both the stock and future flow of migrants would enhance the ability of immigrant workers to assert their rights, join unions, move across jobs, creating a new competitive legal floor for immigrant labor markets, thus actually reducing the demand for total immigration via increases in wages in the traditionally high exploitation labor market segments.[6]

[5] "Real wages of legalized undocumented workers rose an average of 15% in the 4-5 years following legalization, compared to declining real wages in the years prior to legalization. " (US. Dept of Labor, 1996 p.43)

[6] *The first few years immediately post-IRCA saw a sharp decline in INS apprehensions, only to slowly increase in the 1990s as the path to legalization for new workers was closed. (Bean, Edmonston and Passel, 1991)*.

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(2) Increase in human capital investments by legalized immigrants

It is expected that a NWV based legalization would also have similar effects on human capital investments as was seen in the years following IRCA. *Studies show that amongst newly legalized immigrants, there was a surge of investment in language skills, education, training and general economic assimilation, particularly necessary for more effective and productive participation in an increasingly technological and information-based economy. This represented more than a doubling of the previous rate of human capital accumulation for most immigrant groups*.[7]

Overall, the NAID Center CGE Model shows that legalization can generate net economic gains for the United States by offsetting declining immigration and wage and price increases related to legalization with productivity increases also attributable to legalization.

-Increase in prices for consumers of immigrant labor goods.
-Increase human capita investment (double), which will direct generate productivity growth
-Increase productivity growth in other sectors of the economy, through new investments in labor saving technologies and human capital.

Fiscal Impacts: Increase overall tax payments (both through formal economy, and higher wages/productivity) more than off-set new social service demand (which is actually very low compared to the native population).

Supply Side: Economic Development in Immigrant Sending Regions

Crucial to the long term success of the proposed new integral "five canasta" approach to North American labor migration issues will be establishing a credible and effective mechanism for the development needs in migrant sending areas in Mexico. President Fox has repeatedly stated his proposal for using the already existing North American Development Bank (NADBANK) for addressing regional disparities and reducing out-migration pressures.

On the supply side, we model the mobilization of a wide variety of private and public investment funds. We consider various levels of investments targeted specifically to the immigrant sending labor market in Mexico. We alternatively look at 5, 10 and 15 billion dollars mobilized annually for this purpose, measuring the effects of these investments in terms of employment, wages, relative inequality, and thus out-migration pressures. Combined with legalization in the United States undocumented labor markets, our CGE model results show that these relatively modest investment funds, along with existing remittance flows that are geared primarily for consumption, could make

[7] Kossoudji and Cobb-Clark titled "Legalization, Wages, and Self-Investment" 1996, U.S. Department of Labor found that about 43 percent of Mexican men, 53 percent of those from Central America, 48 percent of those from other Western Hemisphere countries, and 44 percent of those from countries outside the Western Hemisphere undertook some type of skill enhancement training post-legalization.

significant impacts in terms of reducing relative wage differences which induce out-migration.

The UCLA NAID report supports the case that President Fox makes for targeting the currently underutilized NADBANK funds (about $3 billion) for leading the mobilization of public and private investments into immigrant sending areas. Such a proposal could be a very effective mechanism for reaching a number of related goals, including: (1) fostering North American cooperation for a long term mobilization of private, public and multi-lateral resources, (2) tapping into credible amounts of resources that are already available, and (3) attracting a wide range of political support throughout the countries and constituencies of North America.

Because of its bi-national institutional capacity, mandate and resources, the NADBANK is arguably the key potential instrument that is capable of launching a credible strategy for helping to transform the bi-national migration and regional investment dynamics. Fostering such a transformation will require a two level trans-national strategy:

First, the NADBANK would focus on supporting the development of carefully crafted financial mediation mechanisms intended to increase savings and investments in immigrant sending and receiving communities in the United States and Mexico. Fostering cooperation with U.S. and Mexican agencies (such as SBA and NAFINSA), the NADBANK would provide technical assistance and matching capital resources to help develop financial platforms (such as micro-loan funds and credit unions) for remittances savings, both individual and collective, to leverage a wide range of local, state and national public and private investment funds in both Mexico and the United States These remittance-leveraged funds would be primarily used for employment and income generating, environmentally sustainable, and community oriented infrastructure and productive investments in targeted immigrant sending regions.

Second, in addition to developing transnational financial mechanisms, the NADBANK is in a unique bi-national position to foster the cooperation needed to address the most critical issue in immigrant sending regions: mobilizing technical assistance delivery and transnational social capital for supporting sustainable regional development projects. A NADBANK pilot project and TA grant program would build on NADBANK's proven track record in pre-project development and project grant facilitation along the United States-Mexico border which is one aspect of the bank that has received very positive reviews from community and environmental groups.[8]

Conclusions

An alternative comprehensive policy approach:, combining legalization of Mexican-U.S. migration with investments in immigrant sending regions in Mexico, is by far the best alternative for sustaining growth in the United States and reducing income inequality both in the United States and between the United States and Mexico.

[8] See details on the BEIF and IDP programs on the NADBANK Web Site, http://www.nadbank.org.

The research conclusions of this report also suggest that the possibility exists for the emergence of a new consensus between labor unions, businesses, immigrant rights groups, environmentalists and advocates for U.S. born low-wage workers, creating a common focus on a workable proposal for sustainable economic integration in North America.

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(I) Scenario 1: Maintaining the Current Policy Status Quo

The current pattern of U.S.-Mexico migration relations can be shown to generate net benefits to the United States economy and taxpayers, at the expense of human suffering at the border and the exploitation of undocumented workers by U.S. employers. While providing benefits to higher income groups on both sides of the border, the current pattern of low-wage migration with limited rights also puts downward pressures on the working poor on both sides of the border, furthering a dependence on low-wage migration by many U.S. employers and Mexican migrant sending communities. Thus rather than contributing to closing income gaps, the current set of migration policies between the United States and Mexico can be shown to be reproducing wide gaps in inequalities within and between countries, and the further perpetuation of low-wage migration.

In this section, we begin by reviewing United States-Mexico migration relations in comparative historical and theoretical context. While the US-Mexico experience is noteworthy for its continued reproducing of very high inequality and continued migration, other experiences around the world, notably postwar Europe, where similarly unequal economies were able to close income gaps with richer neighbor and reduce out migration. We also briefly review the theoretical literature that indicates that migration under different conditions can be a source for upward convergence of income levels.

We then proceed to present the results of an empirically based model that seeks to measure the economic output and distributional costs and benefits of the current pattern of migration relations. The NAID CGE model was constructed based on empirical data of economy-wide and labor market relations within and across the United States and Mexico (as well as California). The NAID CGE model allows us to look at the economy-wide impacts, as well as specific information on which economic groups gain and lose. The model can be used to run a series of experiments to see the trade-offs for the economy under the current migration policy regime, as well as how output and distributional impacts change under different sets of policies. We can investigate the dynamics of output and distributional effects of changes in migration levels directly, as well as changes in the policies that regulate migration, or how other economic or policy changes impact on migration dynamics. In particular, we can investigate the potential ongoing dynamics of economic integration under NAFTA with the current migration pattern to and its impact on inequality.

The NAID CGE model indicates that the current combination of migration and trade policies produce net gains for higher income groups in both the United States and Mexico. These policies also produce an under-paid undocumented labor market as well as negative trade impacts on low-wage workers in both the United States and Mexico by NAFTA. Current migration and trade policies are thus resulting in a growing gap between higher and lower income groups in both countries, which is also increasing the demand and supply of undocumented migration under deteriorating conditions for low-wage migrant labor on both sides of the border.

U.S.-Mexico Migration Relations in Comparative Theoretical and Historical Context

The NAID CGE Model examines a series of alternative scenarios of U.S.-Mexico migration and economic integration, with very different results in terms of output growth and income distribution. The possibilities for these very different outcomes can be shown to exist in theoretical literatures in both trade and migration.

Presidents Bush and Salinas in 1991 both announced publicly that they expected NAFTA to result in a shift from the production of labor intensive goods in the US using Mexican immigrant labor to the production of these goods for trade by laborers in Mexico. "We want to export goods, not people", was the slogan of the time. The expectation that trade liberalization will reduce international migration is an implicit outgrowth of the well-know Stolper –Samuelson theorem. Standard neo-classical trade theory indicates that trade liberalization would reduce migration. But the condition for standard trade theory do not always hold, particular in the North American case. These conditions include: (1) that the two countries share identical production technologies; (2) countries use the same factors of production (factor homogeneity); (3) technologies exhibit constant returns to scale; (4) adjustments in markets is instantaneous; and (5) there is perfect competition, with full employment and complete markets. The variation of initial conditions from those assumed in the Stolper –Samuelson theorem can be shown to produce outcomes where trade liberalization and migraiton are not always substitutes, (Taylor and Martin, 1996), as well as scenarios where trade and migration integration can lead to regional divergence rather than convergence. Krugman (19XX) has also shown that under particular conditions, namely sufficiently large unequal initial conditions and the presence of economies of scale, trade can also lead to regional divergence. The structure of the initial data base for the NAID Center CGE model can be seen as an consistent operationalization of this theoretical framework with highly unequal initial conditions in terms of productivity across sectors, along with the inclusion of economies of scale effects in the manufacturing sectors in both the United States and Mexico

Classical theories of migration, beginning with Arthur Lewis and Gunner Myrdal, present a model where migration is basically a resource transfer from poor to richer regions. Dutch Disease theories, based on self perpetuating, results migrants sending regions effective existing to subsidizing the social reproduction of labor for the North. Paul Krugman (2000) has presented a model version of this approach in terms of the New Growth Theory and New Geography of trade. Kindelberger (1967) showed how the migration from Southern to Northern Europe was crucial for economic recovery in the North. More recently, the development of New Economics of Labor Migration provides a new micro-foundational perspective, viewing migrants as financial intermediaries who provide their families with liquidity and income insurance. The possibility here is that increased integration allows families to finance this strategy, increasing migration in the short run. The possibility is there for remittances to be used effectively to address the original capital and risk constraints, thus reducing continued migration. The inability to secure credit and risks constraints in investment in local production activities, however, encourages migration to overcome these constraints.

Various experiences of economic integration and migration can be seen throughout the world, with differing results in terms of regional and income convergence and divergence across countries. What is interesting is that the North American and the European experiences in the post war period stand out as almost archetypal cases. Figure 1 shows the different evolution in real GDP per capita for the United States and Mexico and for Spain and Germany from 1950 to 1993. U.S.-Mexico per-capita income differential have remained virtually unchanged over this period. While Mexico and Spain had the same per-capita income as late as 1960, Spain's deeper integration with Europe has resulted in a much more rapid growth in income. Figures 2 and 3 show the comparative results in terms of emigration, with Spain ceasing to become a migrant sending region, even though in the 1960's it was emigrating more than Mexico on a per-capita basis. Mexico on the other hand, has continued with large levels of out-migration throughout this period.

While there are a number of explanations for the relative Spanish success, the role of the European Union Structural Funds has been mentioned repeatedly as an important factor. Mexican President Vicente Fox cites this factor regularly in his discussion of U.S.-Mexico relations. Results of a UCLA NAID Center comparative study of NAFTA and the European Union do conclude that the structural funds have been a determinate factor in comparative regional convergence in Europe, along with earlier and deep patterns of trade and investment integration and the harmonization of standards and institutional structures.[9] It is significant to point out that a counter-factual exercise indicates that if Mexico were subject to the same eligibility criteria that Spain has in the EU, it would be receiving $1,000 per capita of structural funds transfers on an annual basis. This would amount to more than $100 billion transferred into Mexico on an annual basis.

The historical evolutions of North American integration and migration dynamics are obviously very different. This report is intended to depart from the basic elements of the current North American dynamics and to investigate the range of possible transformations that could be reasonable to expect both economically and politically. The following presents the basic elements of the current dynamics which were modeled. We start from an analysis of the effects of the current dynamics of restrictionist migration policies between the United States and Mexico, in the context of increase trade liberalization via NAFTA.

Our research shows that the current set of U.S.-Mexico migration policies generate both positive economic dynamics, while also perpetuating negative cumulative cycles. Positive dynamics on both sides of the border include:

[9] Raul Hinojosa (2001), **Comparing North American and European Economic Integration:** Implications for Sub-National and Transnational Policy Making. UCLA NAID Center.

- Mexican immigration represents a net gain for the United States economy, providing a complementary source of labor and skills and a transfer of vital resources from Mexico, benefiting higher income groups on both sides of the border who consume migrant-labor intensive goods.

- U.S. taxpayers receive net fiscal benefits, both from Mexican immigrant taxpayers in the United States as well as from Mexican taxpayers in Mexico who pay for the social reproduction of Mexican labor before they migrate to the United States

Negative cumulative dynamics on both sides of the border include:

- U.S. restrictive border and visa policies perpetuate a pattern of labor and human rights violations, which ironically increase demand for undocumented migration and border smuggling rings;
- degradation of labor and human rights;
- lower wages for immigrants;
- dependence and greater demand for undocumented migration by some U.S. employers;
- increasing dependence on undocumented migration and remittances in Mexican sending communities;
- a lack of an adequate U.S.-Mexico remittance savings systems results in high cost and a lost opportunity to make immigrant sending regions economically self sustaining;
- increasing inequality in Mexican sending comminutes due to poor financial lack of savings and financial institution in Mexico, generating more out-migration from Mexican communities based on relative depravation dynamics;
- remittances do have important impacts directly for the communities that receive them, as well as generating multiplier effects through the local village, regional as well as national economies; and
- remittances by themselves, however, are not enough to generate employment and wage recovery in Mexico migration. Micro studies shows that this can actually feed more out-migration

Greater economic integration with Mexico under NAFTA exacerbates these dynamics through:

- greater restructuring pressures on Mexican low productivity sectors (agriculture) resulting in greater out-migration pressures, and
- loss of jobs in U.S. low productivity sectors (garments) with high concentration of undocumented immigrants.
-

The binational general equilibrium dynamics of immigration are usually completely ignored by politicians, policy makers, and the courts, and only recently are attracting modest attention from researchers and activists. This is particularly striking since U.S.-Mexico migration relations are clearly the largest and most long-lasting mass migration process in the history of capitalism.

Beginning in the 19th Century, both documented and undocumented migration have linked families, communities, regions and economic sectors into what is now a highly embedded bi-national labor market, inextricably linking the fate of millions of urban and rural workers on both sides of the border. In addition to the 1.9 million Mexican admitted as permanent residents from 1965 to 1990, it is estimated that there were an additional 36 million undocumented entries from Mexico into the United States and more than 31 million undocumented departures (Massey and Singer, 1995). This circular flow dwarfs the 4.6 million entries recorded under the Bracero Program and indicates that, in essence, the United States has been sponsoring the largest guest worker program in the world, even though it has been unofficial and clandestine.

Empirically Based Modeling Analysis in North America:
The Dynamics of Net Economic Benefits to the United States Economy

The 1990s recorded a resurgence of arguments as to how immigration provides benefits to the United States economy. No less an economic and political authority than Allen Greenspan has been making a series of remarks on the economic benefits of immigration and the need to rethink U.S. immigration going forward.[10] Some anti-immigrant groups have sought to discredit Chairman Greenspan's comments by attempting to belittle of the contribution of Mexican immigrants to the United States as "not an effective tool for holding inflation in check during periods of economic expansion."[11] This very limited point of contention is not very useful in evaluating the full dimension of the economic impacts of immigration.

In the 1990's, a number of significant studies were conducted to analyze the economic impacts of immigration to the United States Most prominent and widely reviewed were the publications of the National Research Council of the National Academy of Sciences. [12] The one conclusion that virtually all agree on is that immigration represents a net plus for the United States economy due to a number of reasons that are well accepted and well tested the economics literature. Our CGE model confirms these basic results. We also uses the basic points in the literature as a point of departure for constructing a more complete empirical analysis.

Standard economic analysis views the effects of immigration on economic output and welfare as analogous to the effects of trade. With immigration, as with trade, gains

[10] Responding to questions from the Senate Banking Committee, Federal Reserve Chairman Alan Greenspan stated that increasing immigrant numbers in areas where workers are difficult to find could limit the burden in the job market. Greenspan stated, "Aggregate demand is putting very significant pressures on an ever-decreasing available supply of unemployed labor. The one obvious means that one can use to offset that is expanding the number of people we allow in. Reviewing our immigration laws in the context of the type of economy which we will be enjoying in the decade ahead is clearly on the table in my judgment." 1/28/00 (http://www.usvisanews.com/memo852.html).
[11] Steven A. Camarota, 2001, "Immigration From Mexico Assessing the Impact on the United States," p.6. http://www.cis.org/articles/2001/mexico/toc.html
[12] New Americans, The Immigration Debate, Also NBER Abowd an Freeman

accrue when resources can be more efficiently allocated. This "specialization" raises the productivity of inputs and increases output. By taking jobs for which they are better suited, immigrants free up natives, allowing them to be employed in more specialized production. Gains also arise as consumption is shifted towards goods whose costs have consequently fallen. Using this criteria, the National Academy of Sciences made the reasonable, yet very aggregate calculation, that immigration made a net positive contribution to the United States of $14 billion per year in 1997.[13]

In addition to these "efficiency gains" of immigration, labor migration must also be seen as adding resources to the United States economy (labor) which are transferred from other economies. While the total output of the economy will increase through immigration, the distribution of income gains to U.S. workers will depend on if they are complementary to or substitutes for immigrant labor.

The NAID CGE model is capable of evaluating both the "efficiency gains" as well as the "absolute contributions" of the immigrant labor supply. The total effect is measured in response to the counterfactual experiment: What would be the impact on GDP of the loss of the Mexican immigrant labor supply in the United States economy? In order to measure the impact of these effects, a U.S.-Mexico CGE database had to be constructed that included the magnitudes of the labor resource flows between countries and their skill composition and distribution by sectors. In addition, the model was constructed using data for the consumption patterns of all households on both sides of the border.

Table 1 presents the data for the North American economies and migration that are used as inputs into our CGE model. The data clearly demonstrate the large asymmetries between countries in the region, both in terms of GDP, population and GDP per capita. It is also important to point out that Mexico and Central America are much more open economies than the United States and are much more integrated with U.S. economy as a share of their GDP than the United States is linked to the regional economy. Yet, the relative size of regional migration as a share of the United States labor force is larger than the relative contributions of regional trade to GDP, indicating that migration issues should be at least if not a higher priority than the current emphasis on the regional trade agenda.

Table 2 shows the relative size of the Mexican population in the United States. This migration represents a significant transfer of human resources both into the United States economy as well as out of the Mexican economy. Table 3 shows the relative undocumented populations from different parts of the world. While the analysis presented here is made in reference to the Mexican undocumented population in the United States, analogous results can be estimated using the undocumented population for "Greater North American" (4-6 million), or the total undocumented population (6-9 million). Use of recent new estimates of the size of the undocumented population would have the likely effect of scaling upwards the conclusions of these studies as to the positive impact on the United States economy.

[13] The New Americans, 1997, p. 152.

Tables 4 and 5 present the occupation and wage structure of native and undocumented workers (US DOL, 1996). Table 4 shows the complementary difference in occupational structure. Table 5 demonstrates the wage differentials used in the model which are based on data for similar U.S. and undocumented workers before and after legalization. The table shows the relative difference paid to undocumented workers for similar occupation as those of similar U.S. workers. Table 5 also shows the 15 percent reduction in the wages paid to undocumented workers because of their status, which disappears after they are legalized.

Figure 4 shows the rate of apprehensions along the U.S.- Mexican border and the increase in expenditures on border enforcement. Figure 4 shows the increase in deaths along the U.S.-Mexico border. What is most clear from the literature is that the level of expenditures in the 1990's has had virtually no discernable effect on reducing the flow of undocumented migration to the United States. The relevant research continues to show that attempted undocumented migration, as proxied by apprehensions of those attempting to cross the United States-Mexico border illegally, is primarily a function of changes in U.S.-Mexico wages. (Hanson and Spilimbergo, 1999). Other research suggests that authorities actually relax border enforcement when the demand for undocumented workers is high.[14] (August 1999) These findings are consistent with two hypotheses: (1) border enforcement has a minimal impact on illegal immigration, or (2) immigration from Mexico has a minimal impact on wages in U.S. border cities.[15]

The migration function we adopt in the NAID Center CGE model has migrant labor markets in both the United States and Mexico moving workers between them in order to re-establish an equilibrium based on historically set wage differentials. In the NAID CGE Model, moving the wage rate of immigrants impacts on demand for immigrants. Migration is basically demand driven under stable labor supply conditions in Mexico. Negative shocks in Mexico, or positive movement in Mexican employment and wages are also able to influence the supply of labor. Polices that change the institutional structure of labor markets between the two countries, such as a change in U.S. migration and labor standards policies, can have permanent effects on the relevant wage differentials around which migration will be equilibrated between countries.

Current U.S. restrictive border and visa policies perpetuate a pattern of labor and human rights violations, which ironically increase demand for undocumented migration and border smuggling rings. The current repressive/restrictive immigration policy regime focusing on border control only increases transaction costs (and profits for smugglers), cuts off circularity (more long term stayers with families), without any noticeable impact on the supply of labor meeting the demand for undocumented labor in the United States. U.S. wages of undocumented have in fact been typically flat or declining in the last 20 years (Table 5). In an apartheid-like system, an essentially open border with employer

[14] Political Economy, Sectoral Shocks, and Border Enforcement Gordon H. Hanson, Antonio Splimbergo NBER Working Paper No. W7315, August 1999
[15] Does Border Enforcement Protect U.S. Workers from Illegal Immigration? Gordon H. Hanson, Raymond Robertson, Antonio Spilimbergo NBER Working Paper No. W7054 Issued in March 1999

sanctions only pushes people underground, lowering relative wages (increases demand for more cheap labor). Current U.S. guest worker programs, meanwhile, only serve to lock in low-wages and thus higher demand for exploitable labor.

Inefficient and Poorly Serviced Remittance Inter-mediation Perpetuates Dependence on Migration from Sending Communities

Remittances are another very important component of North American migration dynamics. Table 6 presents data on the very impressive relative importance of remittances compared to other sources of capital flows into Mexico and Central America. Lack of an adequate regional remittance savings system, however, results in a series of negative consequence for the potentially positive opportunities provided by the remittance flow. Major problems include the extremely high cost that migrants currently pay to transfer funds. Poor remittance inter-mediation results in the poorest people -- and ironically the highest savers in North America -- paying the highest cost for transferring capital. Lack of transnational banking institutions results in low levels of investment in immigrant sending regions, representing a huge lost opportunity over the years in making immigrant sending regions economically self-sustaining. Lack of adequate international banking services reproduces high levels of inequality and relative deprivation in immigrant sending and receiving regions, fostering greater out-migration. Inadequate financial inter-mediation thus actually increases income mal-distribution can cause relative deprivation and more migration, further the extroverted and dependent dynamics prevalent in a growing number of communities in the poorest regions of Mexico.

Remittances do have important impacts directly for the communities that receive them, as well as generating multiplier effects through the local village, regional and national economies. Remittances by themselves, however, are not enough to generate employment and wage recovery in Mexico. Micro studies show that remittances alone can actually feed more out-migration

NAID CGE Model Results

In this section we present the results the NAID CGE model that seeks to measure the economic output and distributional costs and benefits of the current pattern of migration relations. The model was constructed based on empirical data of economy-wide and labor market relations within and across the United States and Mexico (as well as California). The NAID CGE model allows us to look at the economy-wide overall impacts, as well as specific information on which economic groups gain and lose. The model can be used to run a series of experiments to see the trade-offs for the economy under the current migration policy regime, as well as how output and distributional impacts change under different sets of policies. We can investigate the dynamics of output and distributional effects of changes in migration levels directly, as well as changes in the policies that regulate migration, or how other economic or policy changes impact on migration dynamics. In particular, we can investigate the potential ongoing dynamics of economic integration under NAFTA with the current migration pattern and its impact on inequality.

The NAID CGE model is capable of evaluating both the "efficiency gains" as well as the "absolute contributions" of the immigrant labor supply. The total effect is measured in response to the counterfactual experiment: What would be the impact on GDP of the loss of the Mexican immigrant labor supply in the United States economy? In order to measure the impact of these effects, a U.S.-Mexico CGE database had to constructed that included the magnitudes of the labor resource flows between countries and their skill composition and distribution by sectors. In addition, the model was constructed using data for the consumption patterns of all households on both sides of the border.

Table 7 presents the scenario descriptions applied to the NAID CGE model. Table 9 presents the results of the various scenarios as percent variations from the base data. Table 9 also presents the absolute value data inclusive of the new scenario impacts.

Table 7: NAID CGE Model Scenarios

Scenarios	Description
1a	Creating the Status Quo by Admitting Undocumented
1b	Status Quo 1a plus NAFTA Related Migration
2a	Migrants Expelled from California
2b	Migrants Expelled from the US
2c	Neo-Bracero/Reduction in Migrants' Wages
3a	Investment in MX Communities US$5 B.
3b	Investment in MX Communities US$10 B.
3c	Investment in MX Communities US$15 B.
3d	3a plus Legalization/Increase in migrant wages
3e	3b plus Legalization/Increase in migrant wages
3f	3c plus Legalization/Increase in migrant wages

In Scenario 1a, the NAID CGE model results indicate that in a counterfactual exercise, the adding of 3 million workers to the Mexican migrant pool to the United States economy, represent a contribution of $154 billion to the GDP of the United States, including $77 billion to the GSP of California. To the degree that immigration is complementary to the skill structure of the economy, it can contribute to the welfare of those who consume immigrant labor intensive goods. The NAID CGE results indicate the current combination of migration and trade policies, Scenario 1a, produce net gains for higher income groups in the U.S in the process of creating an under-paid undocumented labor market. In the United States, higher levels of immigration results in higher GDP gains and more per-capita gains for those who buy consumer goods and services produced by immigrants, but with negative impacts for those who compete directly with immigrants for jobs and wages (mostly earlier immigrants). As we shall see in more detail below, increased Mexican undocumented migration produces positive fiscal impacts in the United States based on net tax contributions compared to social service use parameters for immigrant households. In Mexico, on the other hand, more immigration reduces wage pressure in low-wage sectors, but only slightly, and reduces GDP and raises prices for users of low-wage goods.

Migration and Integration Dynamics in North America under NAFTA

Another important aspect of the economic impact of U.S.-Mexico migration concerns its interaction with on-going trade integration and liberalization under NAFTA. Scenario 1b investigates the impacts of NAFTA. The results suggests that NAFTA creates small positive impacts on higher wage earners in both the United States and Mexico, as well as adding somewhat to the aggregate GDP of both countries. Yet NAFTA also produces negative trade impacts on low-wage workers in both the United States and Mexico, creating outward migration pressures in some Mexican low productivity sectors (such as agriculture). At the same time, NAFTA also produces increased displacement pressures on U.S. urban unskilled labor (UNSKLLAB), where most Mexican immigrants find employment, as some product shifts to Mexico's urban semi-skilled labor markets (URBSKLAB). NAFTA thus produces increased migration and more downward wage pressure in low-wage labor markets linked across both sides of the border.

The results presented here are similar to those presented by a number or researchers during the early years of NAFTA. Since these modeling results were first published, a number of counteracting effects were added to NAFTA to reduce the impact of full liberalization in agriculture. Nevertheless, the literature on the issues continues to see evidence of an at least temporary migration "hump" related to NAFTA.

Current migration and trade policies are thus resulting in a growing gap between higher and lower income groups in both countries. While higher income earners gains, there is also an increasing demand and supply of undocumented migration under deteriorating conditions for low-wage migrant labor on both sides of the border. The crucial point here is that current immigration policies and NAFTA work at cross purposes. NAFTA displacement in Mexico moves more workers into the low-wage labor market in Mexico, increasing significantly the wage differentials with the low-wage labor market in the United States. Given the limited number of legal visas, pressures are generated for a surge in unauthorized migration. NAFTA, combined with restrictive immigration policies, further creates benefits for the United States economy, but at the expense of wider violation of human and labor rights through increased undocumented migration.

While creating positive net impacts for regional economies, NAFTA also contributes to a widening of uneven development, with negative unintended consequences and negative cumulative causality. NAFTA increases linkages of more and more communities, creating new opportunities, but also increases labor dislocations without any significant compensation mechanisms for the dislocated. more consumer linkages, but greater income inequality; more high paying US jobs, but pressure on the low end of the labor market. Low-wage labor displacement make it more difficult to compete for capital with higher tech urban settings, further enhancing the inequalities.

Migration was the major issue area left out of NAFTA, although it was pointed out at the time that these migration dynamics are potentially even more important for income and employment than trade. The evidence is becoming more apparent that in fact current immigration policies and dynamics counteract the positive benefits of NAFTA and accentuate the negative impacts. While NAFTA has been able to create exports in the more competitive sectors in the United States, Mexico and Canada, other lower-productivity and lower-wage sectors have faced the brunt of the adjustment in each country. The most significant negative adjustments have been concentrated precisely in those sectors where migrants originate in Mexico (e.g., agriculture) as well as in the sectors where they have traditionally worked in the U.S. (e.g., garment). Given the very meager resources committed to economic dislocations under NAFTA, the current policy mix compounds the regional adjustment problem by moving more workers into the transnational migrant stream where there has also been the least amount of new investment and are likely face the most intense dislocations from NAFTA.

While NAFTA was established as a regional policy strategy for trade and investment, the issues of labor market linkages via migration are only beginning to be discussed as a matter of coordinated national policies (Bi-national Commission).

Fiscal Impacts of North American Migration

1. Immigrants provide net fiscal benefits to the United States.

Even within the narrow accounting framework in which the debate is carried on, both the Urban Institute and the National Academy of Sciences find that use of social services does not differ significantly between immigrants and the native-born over their lifetimes. The NAS study estimates that immigrants and their descendants have an average net fiscal impact (taxes paid minus public benefits used) of +$80,000 per immigrant.[16]

Fix and Passel (1994) point out that the biggest users of transfer payments have been refugees, who were automatically entitled to them.[17] If one excludes refugees from the analysis, immigrants pay on average much more in taxes than they receive in benefits.

[16] NAS (1997), p. 334

[17] Though even this is being reduced by welfare reform.

The recent CIS study, Camarota (2001), focuses on Mexican immigrants. It acknowledges that because most Mexican immigrants take relatively low-paying jobs, they consequently have low incomes, pay little in income taxes, and qualify for many government transfers. The study then blames the immigrants for their poverty, not once mentioning the almost 30-year decline in the real value of the United States minimum wage, which is a conscious government intervention in the labor market.

In a section titled “Impact of Mexican Immigration on Public Coffers,” the CIS study cites the National Academy of Sciences (NAS) study of fiscal impacts of immigrants. The NAS study is NOT about Mexicans but about all immigrants, including refugees, though their data indicate that Latin American immigrants tend to be poorer and impose a greater “fiscal burden” than do immigrants from elsewhere. The CIS report selectively extracts some estimates of the lifetime “fiscal burden” imposed by “immigrants themselves,” when the whole point of the NAS dynamic study is to include immigrants’descendants’ contributions, since most costs being charged to the immigrants’ households are for the children’s education and welfare. The NAS study estimates a net fiscal impact over their and their descendants’ lifetimes of -$13,000 in 1996 for the immigrants with less than a high school education, not the -$89,000 CIS cites. This estimate is highly sensitive to how the future is discounted and to tax and welfare policies.

Another problem with the CIS study is that it compares Mexican immigrants, who are relatively poor and have less education, to all U.S. native-born. If one controls for income, education, and family size, then the Mexican immigrants use fewer public benefits and have a greater net fiscal impact than do the native-born.

2. Unauthorized immigrants are greater net contributors, because they are not entitled to collect on many public benefits or insurance.

If we turn to the issue of unauthorized Mexican immigrants, Marcelli and Heer 1998 showed that in Los Angeles, despite having lower incomes, this group actually used various forms of public assistance at the same or a lower rate than other households. In general, single male unauthorized Mexican immigrants use very little public assistance,[18] families use somewhat more, and families with U.S. citizen children use even more. It is logical that people who are poor would access what they are legally entitled to, but immigrants often avoid use of public services if they intend to immigrate other family members, because the INS considers this.

In other words, overall, unauthorized Mexican immigrants use fewer public services than they are entitled to. In addition, they pay social security and unemployment insurance taxes that they cannot collect on. There are no reliable estimates of the “net fiscal burden” of unauthorized Mexican immigrants, but such an analysis, even conducted in the narrow “taxes and benefits” model, would surely show them to be net contributors, since they are so limited in their ability to receive government transfers.

[18] Various surveys of farmworkers have shown this repeatedly.

3. All of the studies of the fiscal impact of immigrants are systematically biased against immigrants, because they ignore broader economic impacts.

All of the studies estimating the fiscal impact of immigrants—including the National Academy of Sciences study—are fatally flawed, because they take partial equilibrium approaches that focus narrowly on the taxes paid by immigrants and the public services received by them. In doing so, they ignore many sources of taxes that are attributable to the presence of immigrants, such as the non-employment income of immigrants (i.e. immigrant businesses), the profits generated to employers of immigrants, the increased wages of complementary native-born workers, and the multiplier effects of the consumption spending that results both from immigrants' income and all of this additional immigrant-related income.[19]

They in essence assume that all of the businesses that employ immigrant workers, or that immigrants patronize, could somehow continue unaffected with the same income if all of the immigrants disappeared. This lack of a general equilibrium framework produces results that are systematically biased against immigrants, since all of the omitted effects would tend to generate personal income and increase tax revenues to governments.

4. No study of immigrants takes into account the value to the United States of people being raised and educated in other countries.

Most of the "cost" to the government of immigrant families is the cost of educating their children. However, no accounting is made for the expenditures that governments in the United States did <u>not</u> have to make on the education and welfare of immigrants, who were raised in another country.

In a serious international accounting of who owes whom for the social reproduction of the U.S. immigrant labor force, it is the government of United States (and especially California) that would be heavily in debt to the taxpayers of immigrant sending countries. Table 9 shows the result of calculations of how much Mexican taxpayers spend on educating Mexicans who migrate without documents to the United States for their prime working years. In effect, the United States Government should pay a total of at least $ 320 million a year, and the state of California should pay al least $180 million, to the Mexican government for preparing a large part of its work force. This is clearly an underestimation since it does not include Mexico's spending on medical services, housing, urban infrastructure or each Mexican child's share of the annual service of Mexico's debt. The Mexican taxpayers are actually providing the United States and California with a fantastic bargain for educating its future workforce. If the United States and California had to educate these same workers domestically, to meet their current labor demand, it would cost the United States more than $17 billion more per year.

[19] Fix and Passel (1994) note a couple of these omissions, but no one has seen fit to estimate them.

II. Scenario 2: More Aggressive Anti-immigrant Policies and a "Neo-Bracero" Program

The extreme form of this restrictionist policy scenario could prove disastrous for the United States economy, and at best would only worsen the living standards of low-wage workers, while ironically increasing the demand for more undocumented immigration. The NAID Center CGE model results for these policy scenarios include:

(a) Adopting extreme anti-immigrant policy recommendations (such as those of the Center for Immigration Studies and Proposition 187) would result in a dramatic drop in U.S. economic activity. A reduction in the undocumented Mexican immigrant population to zero would produce a dramatic drop in U.S. economic output (about $155 billion). This would also produce negative effects on the United States fiscal balance as well as severe negative impacts on Mexican wages and income inequality.

(b) Adopting a neo-Bracero program (a la Senator Phil Graham) that would further segment the labor market and lock in lower wages would actually increase the demand for more low paid undocumented labor. Further restrictions on immigrant rights that produces a reduction in immigrant wages would actually result in an increase in demand for low-wage immigration. While producing short term benefits to U.S. consumers, this would also results in long term reductions in labor productivity investments in the United States and more dependence on lower wage migration from Mexican rural communities.

The proposals to expand current versions of a "guest worker" program would result in a vastly expanded federal government bureaucracy. Furthermore, guest worker programs would do nothing to improve the migration status quo. Rather, they would involve the government in onerous ways in the normal functioning of the labor market, denying employers the right to choose their workers and denying workers the freedom to work for whom they choose.

The last major guest worker program in the United States, the Bracero Program, under which up to 500,000 Mexican workers were brought in annually, lasted from World War II until 1965. People seem to have forgotten that the unions, the churches, and other groups fought for years to end it. Why did they want to end it? First, it was very difficult to raise wages under the program and wages stagnated for many years in the 1950s. This had a depressing effect on the larger farm labor market. Second, it was impossible for unions to organize farm workers, because Braceros would be brought in to quell organizing drives. Third, the Braceros had few rights and complainers were simply sent back to Mexico. As a result, the Braceros often endured abysmal living and working conditions, especially in such states as Texas, Florida, and Washington.[20] Finally, the program favored the most productive workers, young solo males. Having large numbers of young men alone in a foreign country inevitably leads to social pathologies in the

[20] In fact, conditions were so bad in Texas that the Mexican government banned Texas from the program when it had the diplomatic opportunity to do so.

communities where they are housed. This is still a problem with the current unauthorized migration, but not something we should institutionalize in a new public policy.

The reality of the current guest worker program in agriculture—H-2A—is that practically no employers use it. Of an estimated millions of farm workers, less than 50,000 are hired annually under this program.[21] We have largely gotten the federal government out of the farm labor market, as the placement of individuals in agricultural jobs by the Department of Labor's Employment Service fell from 9.5 million in the 1950s to 140,000 in 1982, the last year for which there are data.[22] Nevertheless, the United States government continues to spend at least $40 million a year on this guest worker program that both employers and bureaucrats say does not work.[23] Proposals to increase the size of this guest worker program would inevitably expand the government funds spent on it in proportion to its size.

The H-2A program suffers from many of the ills of the Bracero Program. It does not allow for free movement of labor, it tends to displace the free labor market in the small areas it is used, workers often complain of poor living and working conditions, and it is well-known that employers compile black lists to eliminate complaining workers.[24] A tremendous amount of litigation has occurred over the program, because government essentially becomes a labor agent of employers, and, since the workers have almost no rights, the only way for others to affect the program is to sue. What workers like about it is that they are LEGAL, but it is not necessary to have a guest worker program to achieve this.[25]

A program such as H-2A is unnecessary, costly, and inefficient. The majority of workers in U.S. agriculture are in fact unauthorized Mexican migrants, who found their jobs through personal contacts and without the need for intervention by the United States government.[26] The reality is that an industry-specific guest worker program would never be widely utilized, because it is simply less expensive and more efficient for most employers to hire unauthorized workers. Even if hundreds of thousands of guest workers were brought in, the free labor market would continue to dominate farm labor employment—and employment in many other low-wage sectors of the United States economy. We would not have resolved the problem of unauthorized migration and we would have created a costly new government bureaucracy to subsidize a small group of employers.

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[21] See ag labor paper--Heppel

[22] Statement of John R. Hancock before the Subcommittee on Immigration and Claims of the House Committee on the Judiciary, September 24, 1997.

[23] Ibid. This man who ran the agricultural labor certification program for the Department of Labor for 12 years, says, "As an experienced hand in agricultural labor recruitment matters, it is my opinion that the H-2A program as presently constituted is not equipped to deal adequately with any new demands that might be placed upon it by U.S. employers who, for whatever reason, should choose to seek labor certification for any substantial number of farmworkers." And also: "DOL's unwritten policy is that the program is a pain, and it would be better for all concerned if it would simply go away."

[24] Personal communications from Anna M. Garcia and Monica Heppel. See also Heppel and Papademtriou

[25] Ibid.

[26] The National Agricultural Worker Survey of the United States Department of Labor estimated that ___ percent of U.S. seasonal crop workers were unauthorized immigrants in 1999.

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III. Scenario 3: A New Comprehensive Bi-National Approach

The UCLA NAID Center report supports the conclusion that real comprehensive immigration reform, based on broad legalization of undocumented migration stock and future flow, combined with targeted economic development investments in immigrant sending regions in Mexico, is the best option for generating prosperity and equity in both the United States and Mexico. The research conclusions of this report provide the basis for the emergence of a new consensus between labor unions, businesses, immigrant rights groups, environmentalists and advocates for U.S.-born low-wage workers, creating a common focus on a workable proposal for sustainable economic integration in North America.

This section presents the NAID CGE modeling results of a "maximalist" version of the comprehensive proposal put forward by the Mexican Government, defined by President Fox as "the maximum level of benefits for the largest number of people." We consider the impact of such a comprehensive approach as having essentially two major aspects: one dealing with the **Demand side** of immigration (U.S. policies for legalization, visas and guest workers) and one dealing with the **Supply side** of out-migration (economic development in immigrant sending regions).

The results show that the maximalist versions of a combined demand and supply side policy response can produce dramatic results in terms of growth and equity for both countries. On the demand side, a broad legalization program that guarantees full labor rights to all migrants, has the best effect in terms of meeting U.S. labor demand with higher wages, lower inequality and higher productivity. On the supply side, the larger the level of investments in Mexico's migrant sending regions, the more rapidly the wage gap closes with the United States, and the more quickly migration declines and is replaced with Mexican demand for U.S. exports. As such, the more maximalist versions of the comprehensive policy emerge as the best policy approaches for reversing the current vicious cycle of bi-national dependence on low-wage migration.

Demand side:
Full Legalization of Stock and Flow of North American Undocumented Migration

On the demand side, we model the full legalization for all the current stock of undocumented workers combined with the creation of a New Worker Visas Program for future temporary and permanent worker visas with full labor rights, job portability, and a legalization, sufficiently large to meet U.S. labor demand needs. Unlike the IRCA legalization which was applied to only a portion of the current stock of undocumented immigrants, the New Worker Visas Program would also include a future oriented visa program needed in order to avoid re-plenishment of undocumented population.

In this report, we consider two demand side policy changes as the basis for running this set of scenarios in the NAID CGE model.

(1) Legalization of the stock of all undocumented immigrants

- Provide legal immigrant status to all current undocumented immigrants from Mexico (approximately 3 - 4.5 million)

- Provide legal immigrant status to all current undocumented immigrants from all countries (approximately another 3- 4.5 million)

(2) Legalization of the future flow of immigrant workers through the establishment of a New Worker Visas (NWVs) Program

- Make available a large number of New Worker Visas based on historical levels of net new undocumented workers (300,000 a year from Mexico, for example).

- NWVs would have the following characteristics:
  -renewable annually, based on showing of legal employment and tax payments and no criminal record
  -multiple re-entry, to allow for circularity of migration
  -full labor rights, full portability across jobs
  -path to legalization after five years of employment
  -require workers to make full social security and employment payments
  -limited access to means tested social services during visa period

The report makes the case that a NWV based legalization of the stock and flow will likely results in similar dynamics as those produced by IRCA. The impact of IRCA can be analyzed via the information published in 1996 by the United States Department of Labor based on an extensive survey on "Characteristics and Labor Market Behavior of the Legalized Population Five Years Following Legalization."

(1) Increase in wage levels for the undocumented immigrant labor markets.[27]

A NWV program would have the effect of setting a new floor for low-wage competitive labor market, thereby generating a decreased demand for low-wage/easily exploitable undocumented labor. A legalization of both the stock and future flow of migrants would enhance the ability of immigrant workers to assert their rights, join unions, and move across jobs. The available evidence shows that this would actually

[27] "Real wages of legalized undocumented workers rose an average of 15% in the 4-5 years following legalization, compared to declining real wages in the years prior to legalization. " (US. Dept of Labor, 1996 p.43)

reduce the demand for total immigration via increases in wages in the traditionally high exploitation labor market segments.[28]

(2) Increased immigrant human capital investments

It is expected that a NWV based legalization would also have similar effects on human capital investments as was seen in the years following IRCA.

Studies show that amongst newly legalized immigrants, there was a surge of investment in language skills, education, training and general economic assimilation, particularly necessary for more effective and productive participation in an increasingly technological and information-based economy. This represented more than a doubling of the previous rate of human capital accumulation for most origin groups.[29]

Overall, the NAID Center Computable General Equilibrium (CGE) Model shows that legalization can be generate net economic gains for the United States achieved by offsetting declining immigration and wage and price increases related to legalization with productivity increases also attributable to legalization.

The NAID CGE model was used to analyze the impacts of legalizing the stock of immigrants and regularizing the flow. This scenario is evaluated relative to the current status quo. In the current situation, migrants form an exploited "underclass," subjected to low-wages and sometimes unsafe working conditions. Legalization would solve this problem by extending the same basic labor rights and legal protections U.S. workers enjoy to migrants. We believe this would increase wages in the US, both for the migrants themselves and for the workers who compete with them for employment.

The crucial assumption is that migration is demand determined. This assumption has been true historically.[30] Unemployment among recent migrants is nearly zero. Under this assumption, legalization increases the wages of newly legalized migrants by eliminating the monopsony power of employers to discriminate. At this higher wage, fewer immigrants are demanded, and more non-migrants are demanded. Thus we should see a fall in the number of new migrants, and a small rise in the wages of non-migrants as well. The extent of the rise depends on: 1) the substitutability between migrants and non-migrants, and 2) the extent of the increase in wages. Surveys show that newly legalized

[28] *The first few years immediately post-IRCA saw a sharp decline in INS apprehensions, only to slowly increase in the 1990s as the path to legalization for new workers was closed. (Bean, Edmonston and Passel, 1991).*

[29] Kossoudji and Cobb-Clark titled "Legalization, Wages, and Self-Investment" 1996, U.S. Department of Labor found that about 43 percent of Mexican men, 53 percent of those from Central America, 48 percent of those from other Western Hemisphere countries, and 44 percent of those from countries outside the Western Hemisphere undertook some type of skill enhancement training post-legalization.

[30] Cornelius (1988) claimed that IRCA would not reduce immigration from Mexico in the long run, since "The 1986 law—at least in its present form—is unlikely to reduce the aggregate demand for Mexican and other foreign-born labor…"(author's emphasis). Bustamonte (1989) suggests that undocumented migration is demand driven, since 60 percent of the migrants cross in California (where the jobs are), despite the fact that crossing there is more costly, in terms of apprehension chances and distance from the traditional sending regions.

migrants see a wage increase of about 15 percent.[31] Other studies indicate that the wage elasticity of migrants is about 0.6; in other words, a 10 percent reduction in the number of workers would raise the wage for that type of worker by 6 percent.[32] Thus, if wages for newly legalized workers rise by 15 percent, as was the case in 1986, then the quantity of those workers hired will fall by about 25 percent.

What about non-migrant wages? Wages for unskilled workers that had to compete directly with undocumented migrants will clearly go up. How much depends on the substitutability between migrants and non-migrants. Even if the substitutability is fairly weak, (cross elasticities of 0.2, 0.11 and 0.1 for agriculture, services, and manufacturing workers, respectively), wages will rise by some 5 percent in agriculture, 2.75 percent in services, and 2.5 percent in manufacturing.[33]

The impact on capital and landowners will be negative, but more difficult to exactly quantify.[34] The impact on skilled workers is difficult even to sign correctly. We would expect skilled labor to be complementary to unskilled labor in some regards, but substitutes in others.[35] The net effect is uncertain, but likely to be small. Professional workers benefit from migrants both from complementarities in production and from the lower cost of labor-intensive goods. They will be hurt by both legalization and the subsequent reduction in the number of migrants to the US.

An additional reason for the boost to wages and fall in the return to capital over time will come from increased investment levels, particularly in labor-saving technologies in labor-intensive sectors. These new investments will boost labor productivity, over and above the impacts discussed below.

With fewer workers working with the same amount of land and capital, total GDP must fall, while GDP per worker rises, since the migrants were less productive than the average American worker. We estimate the fall in gross output at 11 billion dollars, while the increase in output per worker would be about $144.

[31] Anecdotal evidence supports these survey results. After legalization, one California grower said “The same people as always are showing up for work but this year they are asking me how much I’m paying.”
[32] Psacharopoulos estimates an elasticity of 0.54. Grossman estimates an elasticity of 0.23, indicating that the quantity of migrants would have to fall by 65 percent to achieve the 15 percent increase in wages, which seems unrealistic.
[33] Grossman (1984) calculates elasticities between migrants and other labor groups (second generation migrants and natives) in the range of 0.08 to 0.16. Since these categories contain professional workers and other occupational groups that should have lower elasticities, the cross elasticities used above for other unskilled workers are conservatively low.
[34] Grossman finds an elasticity of 0.42 between migrant labor and capital. Land is not included in her analysis.
[35] Wayne Cornelius, in his work on the California labor market, discusses the two-tier structure of firms in a number of industries that rely on migrant labor (construction and many other service industries, in particular). The upper tier consists of high-wage, unionized firms, and the lower tier uses undocumented workers almost exclusively. In some cases, the two groups are competitors, in other cases subcontractor arrangements lead to a symbiotic relationship.

What will workers do with the increase in income? Surveys of legalized migrants after IRCA in 1986 indicate that they increase their expenditure on human capital. It may be that the marginal benefits to education and training are greater in the US labor market than in Mexico (particularly, of course, to English language study and training specific to US markets and culture such as computer classes), and guaranteed access to the US labor market provides the incentive for this expenditure. For whatever reason, such expenditures doubled after legalization.[36] If this additional human capital raises labor productivity for newly legalized migrants by four percent per year, after three years output would increase by $4.2 billion. If, additionally, other unskilled workers in agriculture, manufacturing, and services increase their expenditure on human capital by one quarter, in response to higher wages, the resultant one percent increase in their productivity could, over three years, boost output by $10.8 billion. The combined effect of increased labor productivity for legalized migrants and non-migrants could thus overcome the gross decline in output and the tendency for prices of labor-intensive goods to rise. Output and productivity growth from the increased labor-saving investments would increase output even more quickly than indicated here.

What about the returning migrants? What will keep wages in Mexico from plummeting, in response to the additional workers? Three factors will help prevent this problem. First, expanding trade with the US will continue to create jobs in Mexico. Second, increased earnings by legalized migrants could increase remittances to Mexico. These remittances have historically been an important factor in rural development. Third, U.S.-Mexico negotiations could increase the role of the NAD Bank in financing rural development programs in Mexico. Together with the Inter-American Development Bank and Mexican government initiatives, economic opportunities are expanding and a better safety net is being formed for those that the rapidly changing economy and society threaten to leave behind.

Further CGE modeling would show the interactions between groups, how prices would rise for various products, and how those price increases would affect consumption. Our preliminary calculations indicate that the overall rise in prices would be less than 0.5 percent, but prices of some agricultural goods and personal services would rise much more.[37]

To conclude, let us restate the key assumption of the analysis once again. We believe that the impact of legalization will be to reduce the demand for migrants, allowing wages for low-skill workers to rise. Even though the incentive to migrate will increase, based on the growing wage differential between Mexico and the US, all evidence to date suggests that migrants will not flood into the US market, if employment opportunities do not exist. The much higher cost of living in the US makes prolonged unemployment in the US very unattractive, and we expect that the provisions for legalization will include only a gradual phase-in of eligibility for social services.

[36] Cobb-Clark, Shiells, and Lowell (1991) note "IRCA required legalization applicants to complete both an English and a civics course." How much those required class contributed to the increase in human capital and productivity is uncertain.
[37] We calculate a "worst case" price increase for any migrant-dependent product of 7 percent.

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New Worker Visas (NWVs) Program

Our conclusion is that the key to solving the unauthorized immigration problem is not to create a guestworker program—which would be just another costly, bureaucratic, inefficient government intervention—but rather to legalize the free labor market that currently functions so efficiently. Many serious students of immigration have advocated such an approach for years,[38] and it would consist of some variant of the following:

- Create a New Worker Visas (NWVs) Program, initially for the citizens of Canada, Mexico, the Caribbean, and Central America, contingent on reciprocity from those countries for U.S. citizens (these countries account for 80% percent of current unauthorized migration). The visa could be renewed every 3 years, contingent on avoiding delinquency.
- The New Worker Visas would be completely portable among employers, would grant the holder all normal U.S. labor rights, would make the holder eligible for the work-related insurance programs he would be required to pay into (Disability, Workman's Compensation, Unemployment Insurance, Social Security), but would not create eligibility for means-tested entitlements, Medicare, nor rights to immigrate family members.
- Issue a large enough number of New Worker Visas each year to new entrants so that unauthorized immigration becomes a more costly and less attractive option. A potential migrant could be confident of obtaining one within a year or two. This number of visas could be adjusted with experience, according to demand.
- Sell these visas at a price that is high enough to discourage those who are not seriously seeking work but low enough that they are competitive with the cost of illegal entry (it currently costs between $1,000 and $2,500 to be taken across the United States-Mexican border, depending on the level of comfort one demands).
- Use the funds generated for border enforcement costs and social security number monitoring, in order to create a level of intolerance for the employment of unauthorized workers equivalent to the intolerance for minimum wage violations or income tax avoidance. For example, if 200,000 visas per year were issued at $700, this would generate $140 million.
- Set standards for "earned legal permanent residency (LPR)," which would require holders of NWVs to demonstrate that they have not committed crimes and that they have worked a specified amount of time. Since agricultural work is seasonal, and the average farm worker works only 6 months per year, a reduced time requirement could be created for workers who continuously do farm work. An annual ceiling on earned LPRs could be set so as to phase in the social costs over time. This LPR program would run parallel to the normal program of legal immigrant entry.
- Once the NWV program is established, sell a limited number of such visas to people from the rest of the world, to further discourage unauthorized migration. This would

[38] For example, Robert Warren of the INS has argued this position on a number of occasions. Also David Heer, *Immigration in America's Future*, Boulder: Westview Press, 1996, proposes a category of "legal entrant" that differs only in detail from the proposal discussed here.

be similar to the diversity lottery that allocates LPR status mostly to Europeans, who are also the other major group of visa over-stayers.

Such a New Worker Visas program has many advantages, insofar as it:

- Makes virtually everyone in the United States labor market legal
- Discourages continued unauthorized immigration
- Would likely eliminate deaths at the border
- Allows the free labor market to function and minimizes government bureaucracy
- Provides a continued flow of labor to low-wage industries
- Allows immigrants to exercise their labor rights without fear of deportation
- Minimizes short-term social costs of amnesty for the current unauthorized population
- Maximizes fiscal returns on immigrant labor
- Allows seasonal workers to return to their country of origin
- Encourages U.S. citizens to work in neighboring countries, which, along with the increased remittances from migrant workers, could encourage development and lessen migration pressures.

Some might argue that making available additional hundreds of thousands of work permits would flood the United States labor market, and that everyone would leave their country and come to the United States. There are several reasons why this will not happen.

First, migration responds to the demand for labor. It is much more expensive to be unemployed in the United States, so unauthorized immigrants tend to wait in their country of origin until friends and relatives find them a job opportunity. With legalization, we propose that legal entrants have access to unemployment insurance, but this is a very limited transfer and is only available to those who have already been working.

Second, it is simply not true that most people in North America want to leave their country of origin and migrate to the United States. If they had decent incomes and job prospects, they would prefer to stay where they were born, where they have family and friends, speak the language, and can live their own culture. Puerto Rico presents us with a good example of this. Even though average incomes are lower in Puerto Rico than on the mainland, and Puerto Ricans are U.S. citizens with complete rights to migrate, large-scale migration is a thing of the past.

Similarly, fears that a huge migration would occur from Spain and Portugal when they were admitted to the European Union proved unfounded. A significant wage gap can exist and not provoke migration. In fact, both Spain and Portugal are now net importers of migrant workers.

The United States faces a number of potential national security risks in poor regions surrounding it, such as southern Mexico, parts of Central America, and Haiti. The solution to the problems of poverty in these areas is not to keep the poor shut up in such regions. Instead, allowing increased migration to the United States from these areas will help to stabilize them through the broadened distribution of wealth that occurs from migrant remittances.

The $8 billion in remittances sent from the United States to Mexico, most of it to relatively poor rural areas, is a powerful force that is altering social relations and an important factor in the change of political regimes in Mexico. One has only to look at the dramatic transformations underway in what were extremely poor villages in the southern Mexican state of Oaxaca to see the potential for this process eventually to stabilize the political and economic situation in that country. This would especially be the case if new institutional arrangements support development in the migrant sending regions.

Supply Side: Economic Development in Immigrant Sending Regions

Crucial to the long term success of the proposed new integral "five canasta" approach to North American labor migration issues will be establishing a credible and effective mechanism for the development needs in migrant sending areas in Mexico. President Fox has repeatedly stated his proposal for using the already existing North American Development Bank (NADBANK) for addressing regional disparities and reducing out-migration pressures.

On the supply side, we model the mobilization of a wide variety of private and public investment funds. We consider various levels of investments targeted specifically to the immigrant sending labor market in Mexico. We alternatively look at 5, 10 and 15 billion dollars mobilized annually for this purpose, measuring the effects of these investments in terms of employment, wages, relative inequality, and thus out-migration pressures. Combined with legalization in the United States undocumented labor markets, our CGE model results show that these relatively modest investment funds, along with existing remittance flows that are geared primarily for consumption, could make significant impacts in terms of reducing relative wage differences which induce out-migration.

We believe there is a strong case to be made in favor of President's Fox's proposal for using the NADBANK in immigrant sending areas. Such an proposal could indeed provide the most effective mechanism for: (1) fostering North American cooperation for a long term mobilization of private, public and multi-lateral resources, (2) tapping into credible amounts of resources that are already available, and (3) attracting a wide range of political supporters throughout the countries and constituencies of North America.

The Policy: Leveraging Transnational Remittances for Financing Regional Development

As is well documented in many historical examples, one of the most important means for reducing the cumulative cycle of out-migration is to capitalize remittances for productive investments in immigrant sending regions. A prerequisite for this positive cumulative causation is the transnational channeling of remittances into savings and investments, combined with other productivity enhancing public and private investments. Spain was able to do this through a large network of credit unions, accompanied by large inflows of DFI and EU structural funds. North American migration/remittances relations, however, are one of the most dis-intermediated, inefficient and high cost in the world, draining resources and generating external dependence rather than leveraging resources for sustainable development.[39]

Because of its bi-national institutional capacity, mandate and resources, the NADBANK is arguably the key potential instrument that is capable of launching a credible strategy for helping to transform the bi-national migration and regional investment dynamics. Fostering such a transformation will require a two level trans-national strategy:

First, the NADBANK would focus on supporting the development of carefully crafted inter-mediation mechanisms intended to increase savings and investments in immigrant sending and receiving communities in the United States and Mexico. Fostering cooperation with U.S. and Mexican agencies (such as SBA and NAFINSA), the NADBANK would provide technical assistance and matching capital resources to help develop financial platforms (such as micro-loan funds and credit unions) for remittances savings, both individual and collective, to leverage a wide range of local, state and national public and private investment funds in both Mexico and the United States These remittance-leveraged funds would be primarily used for welfare/employment generating, environmentally sustainable, and community oriented infrastructure and productive investments in targeted immigrant sending regions.

A precedent for such a NADBANK role already exists in the recently approved $2 million loan through its Mexican domestic window to match and leverage remittances, private bank (BANAMEX) and federal funds through the State of Jalisco's Fedi-Raza and Gemicro micro-enterprise funds. This NADBANK loan was approved by a review committee consisting of officials from Hacienda and Banobras. Future loan programs would encourage the development of more local-state-federal financial mechanisms that would leverage international flows of remittances as well as a wide range of contributions and investments

While this must be seen as an issue for the NADBANK Board to decide, this initiative could be easily integrated as a part of the new proposed restructuring of the NADBANK. This initiative could also likely be welcomed as a means of attracting wide support from Latino, union, environmental and business groups. Such a role for the NADBANK would also receive strong support from the Inter-American Development Bank/Multilateral Investment Fund (MIF) which recently held a major conference in Washington D.C. endorsing this strategy for remittance leveraged development.[40]

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[39] Raul Hinojosa-Ojeda (2000). Globalization and Public Goods from Below: Migrant Organizations, Productive Remittances, and Economic Development between Mexico and California. Proposal funded by the John D. and Catherine T. MacArthur Foundation Collaborative Research Competition on New Approaches to Governance in the Context of Rapid Globalization.

[40] IDB-MIF (2001) REMITTANCES AS A DEVELOPMENT TOOL: A REGIONAL CONFERENCE May 17 & 18, 2001. (http://www.iadb.org/mif/eng/conferences/remit_en.htm)

Second, in addition to helping develop transnational financial mechanisms, the NADBANK is in a unique bi-national position to foster the cooperation needed to address the most critical issue in immigrant sending regions: mobilizing technical assistance delivery and transnational social capital for supporting sustainable regional development projects. A NADBANK pilot project and TA grant program would build on NADBANK's proven track record in pre-project development and project grant facilitation along the United States-Mexico border, which is one aspect of the bank that has recieved very positive reviews from community and environmental groups.[41] Out-migration both drains human resources from sending communities while also developing potential strategic assets through transnational networks and U.S. based home town association (HTAs). A NADBANK bi-national project/technical assistance grant program will enhance the ability of HTAs, other NGO's and small businesses to transmit funds as well as technical know-how, marketing skill and social solidarity, which have been shown to be crucial for the success of transnational productive projects.[42]

A NADBANK project/TA program would be a prudent way to begin slowly scaling up the larger loan program though a series of smaller seed grants to create solid pilot initiatives capable of developing into self sustaining regional development projects. This program could be initially funded by currently available NADBANK resources, if allowed for broader use. In addition, this NADBANK program could attract significant grant contributions from the IDB's Multi-lateral investment Fund.

A NADBANK pilot project and TA grant program would also have the virtue of mobilizing a broad range of actors (HTAs, NGOs, small businesses and local governments) to focus collaboratively on specific problem solving projects in targeted immigrant sending regions. Such a civil society based approach can also mobilize a broad range of U.S. financial support, from foundations (Ford, Rockefeller, MacArthur, and Hewlett are all supporting emerging networks in this area) to local U.S. state and federal programs for NGOs and small business (a crucial model is the 18 year old Florida State Government funded Volunteer Corp for Central American and Caribbean Action). This initiative should be presented as part of the Mexican Government's approach to involve new actors in North American cooperation and development efforts.

The Politics: Strong Potential Support from Institutions, Constituent Groups, and Legislatures

This NADBANK proposal delivers a crucial component needed to complete an integral and coordinated North American policy response to migration. The NADBANK is the only North American institution that has the surplus resources and potential credibility to initiate and sustain a long-term process of tri-national cooperation. The NADBANK has been the object of numerous criticisms for its lack of investments over

[41] See details on the BEIF and IDP programs on the NADBANK Web Site.

[42] NAID Center, UCLA (2000) CALIFORNIA IN THE WORLD ECONOMY COMPREHENSIVE PROJECT 2000. (http://naid.sppsr.ucla.edu/confs&class/)

the last six years. The timing of this new proposal, however, will actually represent a strong plus for the United States and Mexican governments, which must come up with a positive strategy to use the resources already committed to the NADBANK more effectively.

Key will be the integrating of this new proposal as a part of the currently contemplated restructuring plans, which of course needs to be adopted by the NADBANK Board. The acceptance of this NADBANK proposal by Hacienda officials is needed, which should be facilitated by the recent precedent-setting loan to the State of Jalisco. Support from the United States Treasury should be facilitated by the fact that this initiative will not require any new U.S. appropriations. Most important to both Hacienda and Treasury could be the willingness of a broad coalition of constituency groups to back this new NADBANK initiative, both directly and through their legislative representatives.

TABLE 1
Comparative Based Data for North American Countries

	United States	California	Mexico	Central America
GDP (US Billions) 1999	9,200	1,330	483.7	63.8
Per Capita GDP ($US)	33,386	38,349	4,820	1,743
Total Exports (thousands $US)	702,098	122,093	148,601	11,174
Exports to Region	87,843		147,781	7,637
Total Im ports (thousands $US)	1,441,441	209,025	155,581	22,883
Imports from Region	103,493		93,475	10,432
Exports as Percent of GDP	7.6%	9.18%	30%	1.752%
Imports as Percent of GDP	15.6%	15.72%	32%	3.587%
Exports to Region as % of GDP	0.95%		30.5%	1.197%
Imports from Region as % of GDP	1.13%		19%	1.635%
Total Population (2000)	275,562,673	33,899,000	100,349,766	36,592,630
Population Ages 15-64	182,172,625	21,939,703	62,091,530	20,683,862
Total Immigration in the US (thousands) 1996	915.90	201.52	163.57	44.29
Total Undocumented in US (thousands)1996	5,000	2,000	2,700	660

Source:
For US, Mexico, and Central America: World Bank Statistical Data www.worldbank.org
All Information For California: California Statistical Abstract, 2000 www.dof.ca.gov
All Population estimates US, Mexico, Central America, 2000, US Census www.census.gov
All Immigration information from INS, 1996, www.ins.gov
Notes:
California Population estimates are for 1999

Table 2

Mexican Contribution to U.S. Population and Labor Pool

Thousands	1940	1950	1960	1970	1980	1990	2000
1) Total U.S. population	132,457	151,868	179,979	203,984	227,217	249,666	281,422
(2) Total Mexican populat ion	19,654	25,791	34,923	48,225	66,847	85,782	98,881
(3) Population of Mexican origin in U.S.	377	450	1,735	4,532	8,740	13,495	20,600
(4) U.S. labor force	41,870	63,379	71,489	84,889	108,544	126,424	138,386
(5) Mexican labor force	5,858	8,345	10,213	14,489	22,092	31,027	40,666
(6) Annual flow of legal temporary workers	0	150	420	47	20	120	35.9
(7) Cumulative stock of undocumented workers (since 1940)	0	100	200	316	1,095	2,298	5,000
(8) Cumulative stock of legal immigrant workers (since 1940)	0	46	286	673	1,230	2,172	660
(9) Total Mexican workers in U.S. labor force	0	296	906	1,036	2,345	4,590	5,696
(10) Total labor force in U.S. of Mexican origin	335	571	1,308	2,063	3,498	8,742	14,008
Percent shares							
(11) Mexicans working in U.S. as share of Mexican labor force	0.0	3.6	8.9	7.2	10.6	14.8	14
(12) Mexicans working in U.S. as share of U.S. labor force	0.0	0.5	1.3	1.2	2.2	3.6	4.1
(13) Total labor force in U.S. of Mexican origin as share of U.S. labor force	0.8	0.9	1.8	2.4	3.2	6.9	10

Notes:
U.S. Mexican labor force totals for 1940, 1950, 1970, 1980 and 1980 are from the census data on economically active population (including unemployed). The 1960 census figure was adjusted to correct for over-counting of rural workers. The estimates in row (6) are based on the number of legal temporary workers, including braceros from 1942 to 1964, H-2 from 1952, and SAW/RAW from 1986. Estimates in row (7) are of undocumented workers durin g the previous five-year period (one quarter of undocumented immigrants deported reduced by one-fourth for non-participants in the work force) and are adjusted by estimates published by Passel and Woodrow (1984) and Garcia y Griego (1989). Year 2000 Data is based on 1996 numbers. Row (8) is based on the INS Yearbook of Immigration Statistics, with demographic growth calculated along with a 0.68 labor force participation rate and a 0.05 attrition rate and is based on 1998 figures. Mexicans in the United States refer to all legal and undocumented immigrants from Mexico who entered this country between 1940 and the present and their progeny, regardless of place of birth. This is clearly not the same as "people of Mexican origin" as described in the U.S. Census and Current Population Survey. The magnitude of the difference (about half the current total) can be explained as arising from all legal and undocumented immigrants and their descendants who came before 1940.

TABLE 3
Estimated Undocumented Immigrant Population
Top 20 Countries of Origin and Top 20 States of Residence

Rank	Country of Origin	Population	Rank	State of Residence	Population
	All Countries	5,000,000		All States	5,000,000
1	Mexico*	2,700,000	1	California	2,000,000
2	El Salvador**	335,000	2	Texas	700,000
3	Guatemala**	165,000	3	New York	540,000
4	Canada*	120,000	4	Florida	350,000
5	Haiti**	105,000	5	Illinois	290,000
6	Philippines	95,000	6	New Jersey	135,000
7	Honduras**	90,000	7	Arizona	115,000
8	Dominican Republic**	75,000	8	Massachusetts	85,000
9	Poland	70,000	9	Virginia	55,000
10	Nicaragua**	70,000	10	Washington	52,000
11	Bahamas**	70,000	11	Colorado	45,000
12	Colombia	65,000	12	Maryland	44,000
13	Ecuador	55,000	13	Michigan	37,000
14	Trinidad & Tobago**	50,000	14	Pennsylvania	37,000
15	Jamaica**	50,000	15	New Mexico	37,000
16	Pakistan	41,000	16	Oregon	33,000
17	India	33,000	17	Georgia	32,000
18	Ireland	30,000	18	District of Columbia	30,000
19	Peru	30,000	19	Connecticut	29,000
20	Korea	30,000	20	Nevada	24,000
	Other	721,000		Other	330,00

Totals	
North American Undocumented Immigration	2,820,000
Greater North American Undocumented Immigration	1,010,000

Source: *Statistical Yearbook of the Immigration and Naturalization Service*, 1996, US Immigration and Naturalization Service, Washington, DC 1997, p.198
* North America
** Greater North America

TABLE 4

Major Occupation of Employment: Legalized Workers by Various Characteristics, 1992

Variable	Characteristic	Occupation (percent)										
						Services						
		Total	Professional Technical Managerial	Sales	Administrative Support	Private Household	Food	Other	Farm	Craft and Repair	Operator, Transport	Labor
Total	**US Workers**	**100**	**30**	**12**	**16**	**1**	**5**	**8**	**3**	**11**	**10**	**4**
	Legalized Workers	**100**	**8**	**5**	**7**	**5**	**10**	**11**	**6**	**15**	**24**	**9**
Sex	Male	100	8	4	5	-	12	8	8	20	25	10
	Female	100	8	7	11	14	7	17	2	5	21	8
Region of Origin	Mexico	100	5	4	6	4	11	10	7	16	26	11
	Central America	100	8	6	8	13	10	15	2	13	20	5
	Other	100	22	10	12	4	9	12	1	11	15	4

TABLE 5						
Earnings of Legalized Workers by Various Characteristics: First US Job, at application, and 1992						
Variable	Characteristics	Mean Hourly Wage (constant 1992 dollars)			Individual Earnings 1991 (median)	Family Earnings 1991 (median)
		First US Job	At Application[43]	In 1992		
Total	US Workers[44]	-	$8.98	$10.33	$17,146	$35,939
	Legalized Workers	$7.59	$7.57	$8.71	$12,670	$20,147
Sex	Male	8.20	8.33	9.43	15,198	21,968
	Female	6.67	6.15	7.41	8,748	17,507
Region of Origin	Mexico	7.51	7.14	8.11	12,091	19,112
	Central America	6.53	7.3	8.42	11,869	19,471
	Other	8.99	9.64	11.46	17,982	26,804
Place of Residence	California	7.72	7.67	9.02	12,597	20,498
	Texas	6.63	6.34	7.17	11,943	16,396
	New York	7.59	8.38	9.13	14,778	20,976
	Other	7.83	7.75	8.68	13,211	21,100

- Not Applicable

a US workers, annual average, 1987; Legalized workers' wages during week prior to application in either 1987 or 1988

b Earnings of US production or non-supervisory workers on private non-farm payrolls.

Sources: Legalized workforce (Legalized Population Survey [LPS1] restricted sample and Legalized Population Follow-Up Survey [LPS2]); US wage data (BLS, *Employment and Earnings*, January 1993. Annual average); US Earnings data (BLS, unpublished data from the Current Population Survey, March 1992)

THE PERCENT CHANGES FOR MEAN HOURLY WAGES:
AT APPLICATION: 18.62%
In 1992:18.63%
From At Application to In 1992 for both US and Legalized workers: 15%

Table 6 Remittance						
	Mexico	Central America	El Salvador	Guatemala	Honduras	Nicaragua
Remittances (thousands)	$6,795	$707	$1,580	$535	$368	$345
Remittances as compared to: (% of)						
General Indicators						
Official Development Assistance (ODA)	31029%	338.25%	910%	232%	104%	107%
Foreign Direct Investment (FDI)	60%	330.75%	684%	364%	160%	113%
Gross Domestic Product (GDP)	1.4%	9.2%	12.6%	3%	6.8%	14.4%
Tourism and Main Exports						
Tourism	94%	346%	749%	94%	189%	352%
All Agricultural Exports	164%	90.75%	211%	32%	45%	75%
Exports	5%	41.63%	63.2%	19.3%	21%	63%
Source: www.iadb.org Central America includes: El Salvador, Guatemala, Honduras, and Nicaragua All Central America Numbers are averages for all four countries						

Table 8
Scenario Variation from the Base

		Base	1a	1b	2a	2b	2c	3a	3b	3c	3d	3e	3f
Real GDP	[Percentage Change]												
	US	9963.0000	1.5511%	0.1272%	-0.7756%	-1.5511%	0.4080%	-0.0393%	-0.2580%	-0.4461%	-0.2642%	-0.4386%	-0.6191%
	CA	1330.0000	4.9852%	0.1104%	-2.4112%	-4.9852%	0.3518%	-0.0339%	-0.2222%	-0.3845%	-0.2270%	-0.3759%	-0.5325%
	MX	438.7560	-1.5572%	0.0648%	1.0770%	1.5572%	0.2635%	0.1097%	0.1239%	0.1205%	0.3979%	0.4090%	0.3714%
Real GDP	[Absolute Change]												
	US	9963.0000	154.5353	12.6775	-77.2696	-154.5353	40.6463	-3.9169	-25.7001	-44.4465	-26.3251	-43.6964	-61.6819
	CA	1330.0000	66.3032	1.4687	-32.0684	-66.3032	4.6785	-0.4506	-2.9554	-5.1135	-3.0197	-5.0001	-7.0823
	MX	438.7560	-6.8323	0.2844	4.7256	6.8323	1.1562	0.4812	0.5435	0.5287	1.7460	1.7946	1.6296
Migration	[NET Change in Thousands]												
	USMIGAG		800	18.40	-400.00	-800.00	-57.75	6.16	-15.16	-30.35	-24.38	-35.10	-45.91
	MIGRANTS to US RURAL SECTOR												
	USMIGURB		2,200	370.03	-1,100.00	-2,200.00	183.61	-125.63	-773.30	-1,330.23	-785.26	-1,303.61	-1,841.61
	MIGRANTS to US URBAN SECTOR												
	CAMIGAG		400	7.25	-400.00	-400.00	64.60	4.05	-2.99	-7.39	-6.19	-9.24	-12.28
	MIGRANTS to CA RURAL SECTOR												
	CAMIGURB		1,100	140.90	-1,100.00	-1,100.00	977.72	-49.01	-293.44	-504.36	-298.18	-494.94	-698.55
	MIGRANTS to CA URBAN SECTOR												
	MXMIG		547	305.90	-19.24	-546.58	267.81	176.58	-74.78	-245.59	-256.27	-420.61	-580.22
	MIGRANTS IN MX URBAN												
Average Factor Wages		[Percentage Change]											
	US												
	CAPITAL		3.6018%	0.0566%	-1.7896%	-3.6018%	0.1812%	-0.0453%	-0.1189%	-0.1925%	-0.1303%	-0.2152%	-0.2775%
	RULAB		-85.5655%	-0.9168%	42.9928%	85.5655%	-2.8769%	0.2767%	1.9072%	3.2916%	2.7148%	3.6436%	4.6068%
	UNSKLLAB		-4.0401%	-0.9168%	2.0409%	4.0401%	-2.8773%	0.2767%	1.9071%	3.2915%	1.9187%	3.2100%	4.5545%
	URBSKLLAB		1.0968%	0.0538%	-0.5264%	-1.0968%	0.1977%	-0.0499%	-0.1220%	-0.2020%	-0.1423%	-0.2178%	-0.2859%
	YUPS		1.0111%	0.0476%	-0.4818%	-1.0111%	0.1806%	-0.0503%	-0.1130%	-0.1869%	-0.1345%	-0.2024%	-0.2655%
	LAND		-13.4769%	0.5848%	6.8049%	13.4769%	0.7443%	0.5848%	0.3456%	0.2658%	0.2392%	0.1329%	0.0532%
	CA												
	CAPITAL		3.6014%	0.0531%	-1.7889%	-3.6014%	0.1889%	-0.0472%	-0.1240%	-0.2007%	-0.1358%	-0.2184%	-0.2834%
	RULAB		-85.6063%	-0.9168%	43.0132%	85.6063%	-2.8768%	0.2767%	1.9072%	3.2915%	2.7148%	3.6436%	4.6068%
	URBUNLAB		-11.5662%	-0.9167%	5.6995%	11.5662%	-2.8771%	0.2766%	1.9071%	3.2915%	1.9187%	3.2100%	4.5545%

UNIONLAB	1.1134%	0.0538%	-0.5346%	-1.1134%	0.1978%	-0.0216%	-0.1220%	-0.2020%	-0.1423%	-0.2178%	-0.2859%
YUPS	0.3747%	0.0476%	0.1427%	-0.3747%	0.1806%	-0.0122%	-0.1130%	-0.1869%	-0.1345%	-0.2024%	-0.2655%
LAND	23.2830%	0.1880%	-11.5274%	-23.2830%	0.7049%	-0.2350%	-0.6512%	-1.0540%	-0.6781%	-1.0339%	-1.3897%
MX											
CAPITAL	-4.5381%	0.3149%	2.3073%	4.5381%	0.4444%	-0.6416%	-1.7570%	-2.8429%	-0.3973%	-1.4597%	-2.5545%
RULAB	5.1462%	0.9810%	-4.2638%	-5.1462%	-0.9215%	-4.3469%	-10.6452%	-16.5101%	-11.4649%	-16.9248%	-22.6805%
URBUNLAB	5.4663%	0.9819%	-4.4226%	-5.4663%	-0.9226%	-4.3467%	-10.6450%	-16.5095%	-7.3907%	-12.8505%	-18.6063%
UNIONLAB	-4.4747%	0.2985%	2.3983%	4.4747%	0.3971%	-0.7524%	-2.0033%	-3.1637%	-0.5851%	-1.7452%	-2.9117%
YUPS	-4.7515%	0.2644%	2.5223%	4.7515%	0.3642%	-0.7035%	-1.8508%	-2.9174%	-0.5156%	-1.5848%	-2.6565%
LAND	-5.4667%	-6.7609%	-2.6168%	5.4667%	-6.2708%	-10.5005%	-12.8223%	-16.3241%	-8.4309%	-11.7185%	-15.4629%

		Base	*1a*	*1b*	*2a*	*2b*	*3*	*4a*	*4b*	*4c*	*5a*	*5b*	*5c*
Real GDP	[Absolute Change]												
	US	9963.0000	154.5353	12.6775	-77.2696	-154.5353	40.6463	-3.9169	-25.7001	-44.4465	-26.3251	-43.6964	-61.6819
	CA	1330.0000	66.3032	1.4687	-32.0684	-66.3032	4.6785	-0.4506	-2.9554	-5.1135	-3.0197	-5.0001	-7.0823
	MX	438.7560	-6.8323	0.2844	4.7256	6.8323	1.1562	0.4812	0.5435	0.5287	1.7460	1.7946	1.6296

TABLE 9

Estimated Mexican Taxpayer Subsidy to California and the U.S. Via Educational Spending on Undocumented Immigrants

Government Spending on Primary and Secondary Education
(Thousands of Students, 1991 Pesos)

Mexico	Primary (K-6)	Secondary (7-9)	Const.	Total
Students	14,398	4,160		18,558
Total Spending	11,774 m	3,918 m	466 m	16,158 m
Spending Per Capita	817	942	25	$ 871 Mx $ 285 US
United States (K-12)				5,200
California (K-12)				6,300

Total Annual Subsidy by Foreign Taxpayers to the U.S. and California (Assuming 9 school years per worker)
(Millions of U.S. Dollars)

	Total	Mexico
U.S.	769	320
California	320	179

Total Costs to the U.S. and California of Educating Workers to Replace Undocumented Immigrants
(Assuming 9 school years per worker)
(Millions of U.S. Dollars)

	Total	Mexico
U.S.	17,695	7,206
California	5,850	3,276

Sources: Anuario Estadistico de Los Estados Unidos Mexicanos, Capitulo 6, 1992; Robert Warren, "Estimates of the Undocumented Immigrant Population in the U.S., by country of Origin and State of Residence, October 1992," U.S. Immigrantion and Naturalization Service.

Table 10
Mexican Origin Latino (MOL) Emigration to the United States

Year	Braceros	Deportable Total	Deportable Mexico	Undocumented MOL	MOL Immigrants + Undocumented	Temporary Workers
1946	32	100	90	23		
1947	20	194	158	40		
1948	35	193	156	39	42	
1949	107	288	233	58	65	
1950	67	468	379	95	101	
1951	192	509	412	103	109	
1952	197	529	42	11	20	
1953	201	886	676	169	187	
1954	309	1,089	920	230	267	
1955	398	254	221	55	105	
1956	445	88	62	16	71	
1957	436	60	38	10	59	
1958	432	53	32	8	34	
1959	437	45	25	6	29	
1960	315	71	22	6	38	
1961	291	89	23	6	47	
1962	194	93	23	6	61	
1963	186	89	31	8	63	
1964	177	87	35	9	41	
1965	20	110	44	11	48	
1966	8	139	71	18	63	
1967	7	162	86	22	64	
1968	6	212	113	28	71	
1969		284	159	40	84	
1970		345	219	55	99	
1971		420	290	73	123	
1972		506	355	89	153	
1973		656	576	144	214	
1974		788	709	177	248	
1975		767	614	153	215	
1976		876	701	175	248	
1977		1,042	834	208	252	
1978		1,058	846	212	304	
1979		1,076	861	215	267	
1980		910	734	184	240	
1981		975	797	199	300	
1982		970	795	199	255	4
1983		1,251	1,076	269	328	
1984		1,246	1,104	276	333	4
1985		1,348	1,218	305	366	5
1986		1,767	1,671	418	484	12
1987		1,191	1,139	285	357	13
1988		1,008	949	237	332	12
1989		954	865	216	621	22
1990		1,169	1,092	273	952	16
1991		1,197	1,131	283	1,229	13
1992		1,258	1,205	301	514	14
1993		1,327	1,269	317	443	16
1994		1,094	1,040	260	371	17
1995		1,394	1,340	335	424	
1996		1,649	1,598	400	563	26
1997		1,537	1,478	370	516	
1998		1,679	1,614	404	534	51

Source: INS Statistical Yearbook, and Pontes and Back, 1985, Table 8, p.63

Figure 1
Mexico-US. And Spain-Germany Real GDP per capita,
1950-1993

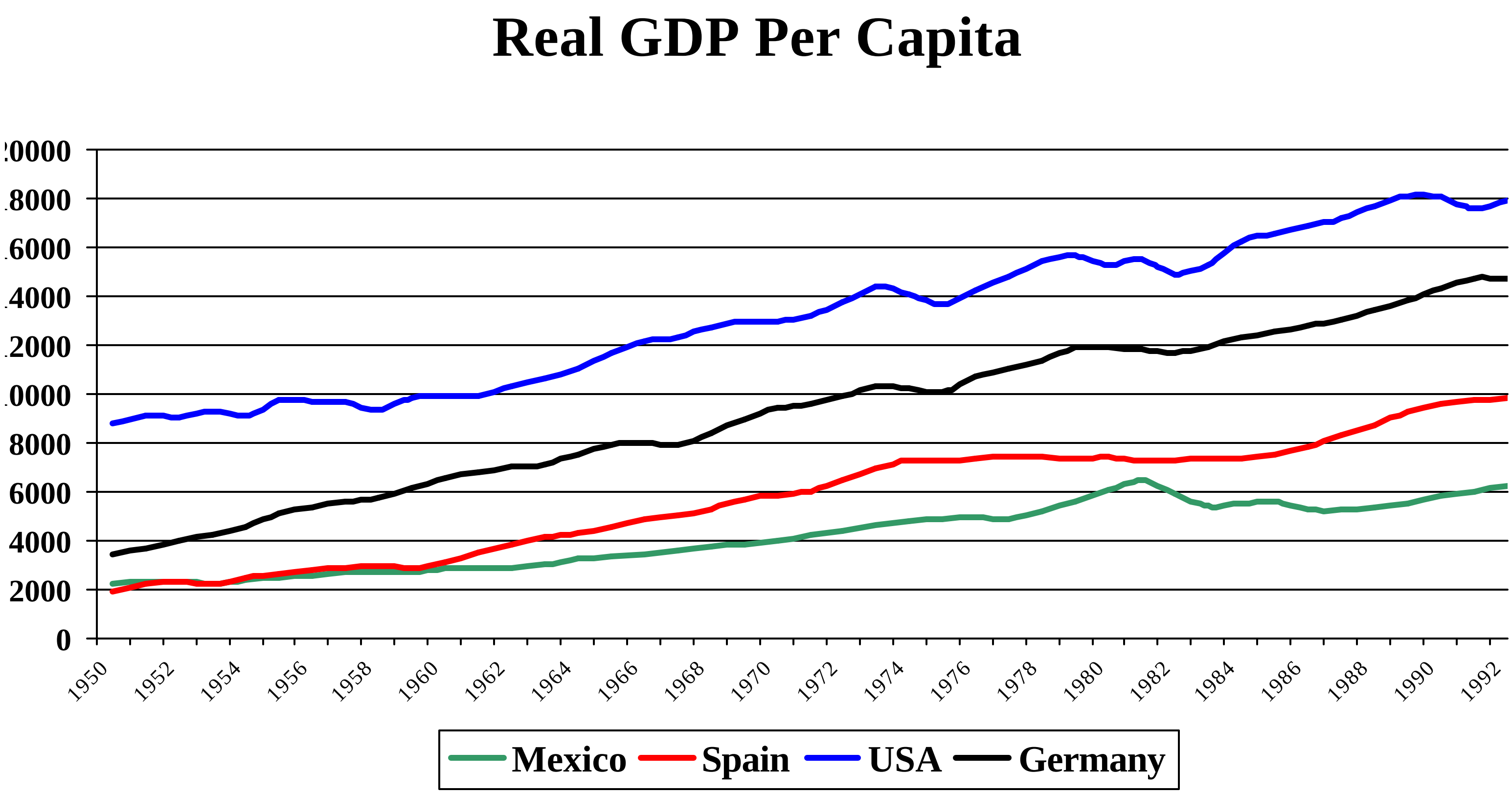

Figure 2
Spanish Emigration: Long and Short Term

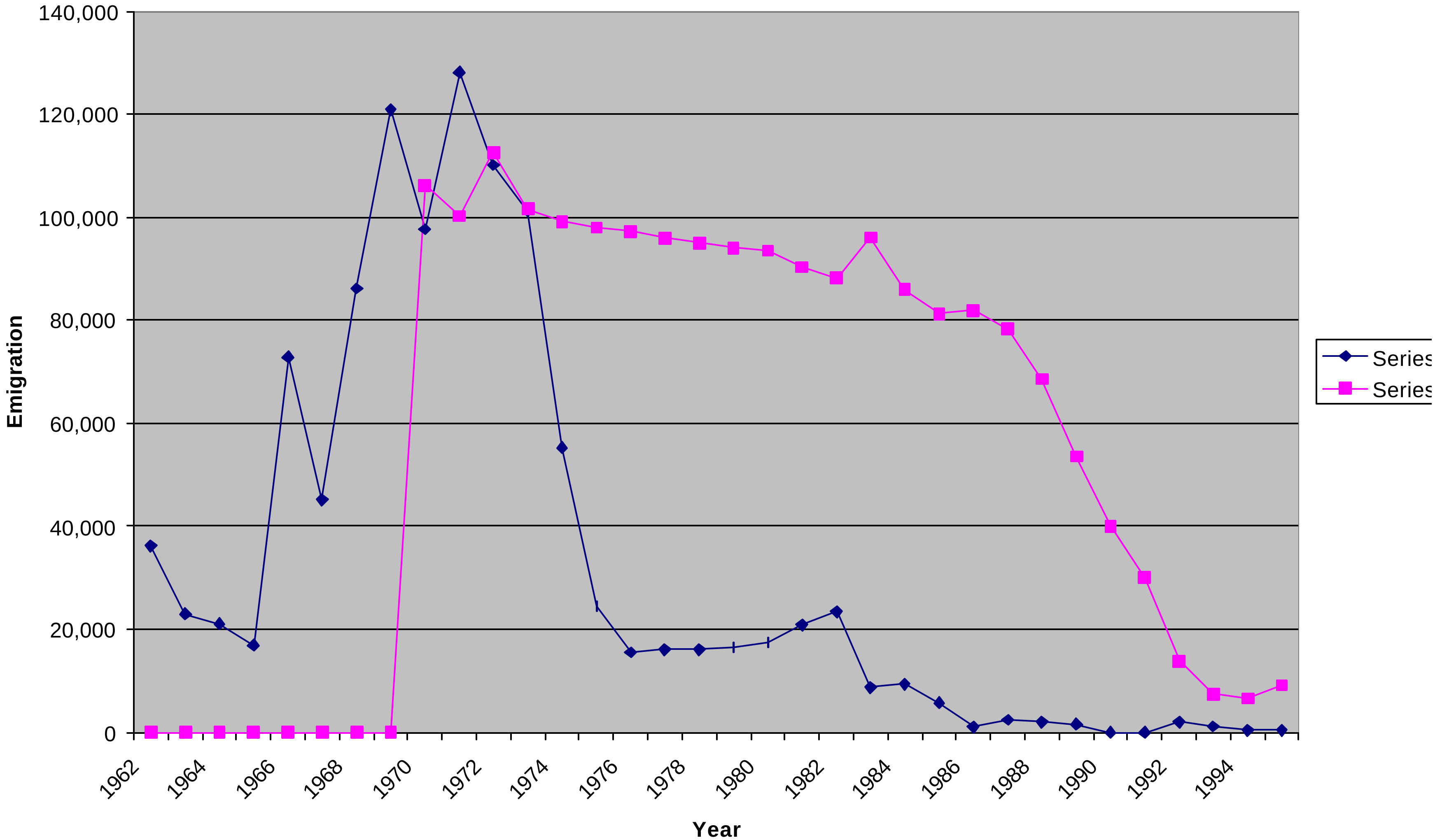

Figure 3
Mexican Emigration to the United States
(thousands)

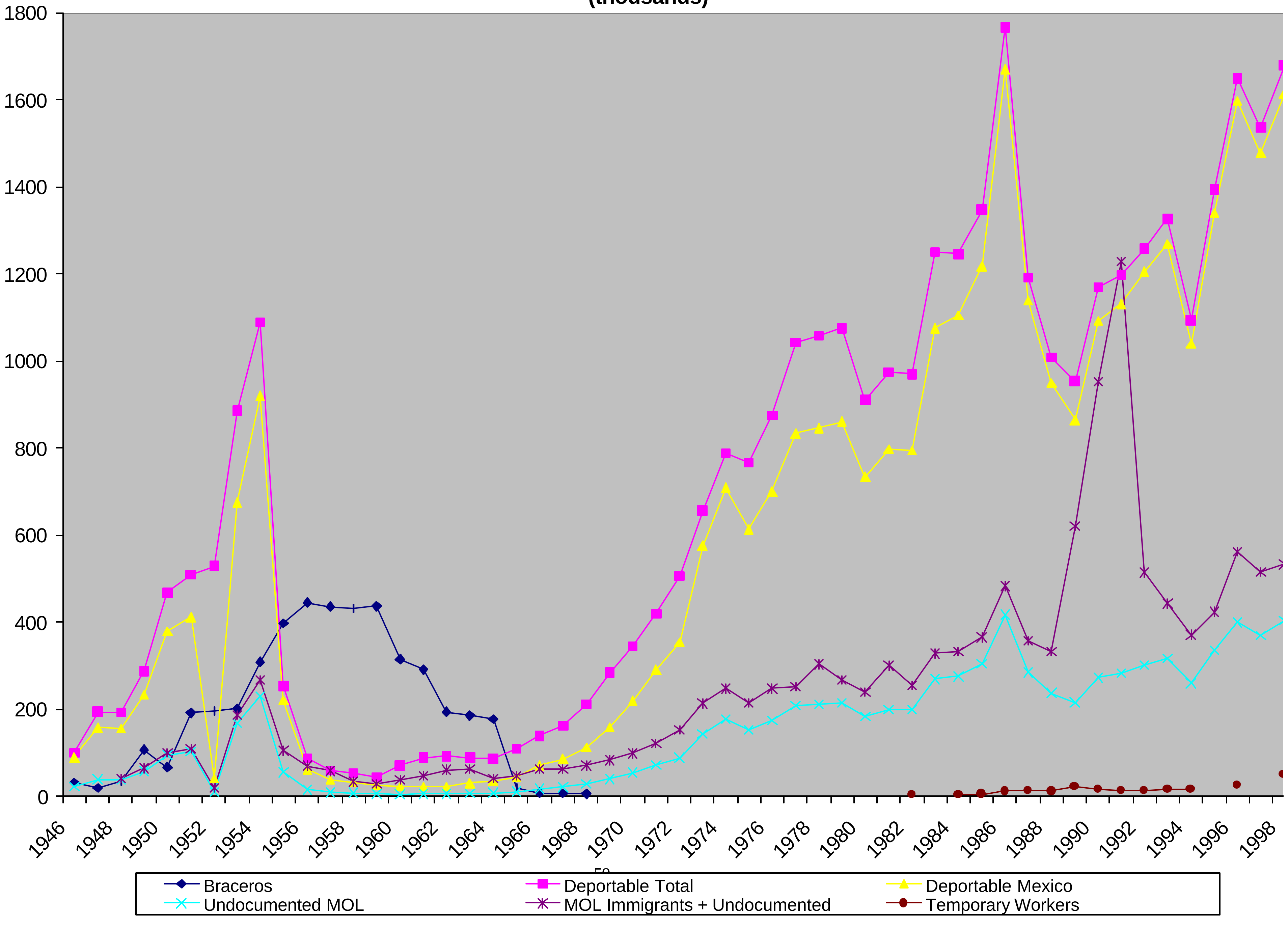

Figure 4
INS Border Patrol Authorized Staffing and Alien Apprehensions in Southewst Sectors