Capital Flight and Economic Crisis: Mexican Post-Devaluation Exiles In a California Community

by Valdemar de Murguía

Center for U.S.-Mexican Studies
University of California, San Diego

Private Mexican Deposits in U.S. Banks, 1974–1985

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CAPITAL FLIGHT AND ECONOMIC CRISIS:
MEXICAN POST-DEVALUATION EXILES
IN A CALIFORNIA COMMUNITY

by

VALDEMAR DE MURGUIA

Center for U.S.-Mexican Studies
University of California, San Diego

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CAPITAL FLIGHT AND ECONOMIC CRISIS: MEXICAN POST-DEVALUATION EXILES IN A CALIFORNIA COMMUNITY

Introduction

In 1981 Mexico experienced the first in a series of economic reverses which plummeted the national economy into a seemingly bottomless crisis of inflation, unemployment, declining production, and foreign debt. The glut of the world oil market in the summer of that year precipitated the crash, sharply reducing projected earnings from petroleum exports and thereby pulling the economic rug out from under the Mexican regime's plans for financing development in the 1980s. Mexico's ability to service its enormous and growing foreign debt soon became a concern, and speculative pressure on its currency began to build almost immediately. In 1982, when revenues from petroleum exports fell $5-7 billion short of projections, those pressures became impossible to resist: in February the Mexican government implemented the first in a series of currency devaluations which have sent the price of a dollar in Mexico skyrocketing from 23.5 pesos to its current (1986) level of nearly 800.

As they gained strength, these trends reinforced deep-seated apprehensions among Mexican investors, whose skepticism about the future of their economy and the ability of the government to control it had grown without interruption for over a decade. The crisis of the 1980s precipitated a virtually complete collapse of confidence among private-sector actors, who reacted by exporting massive amounts of investment capital. According to the central bank, total capital flight for 1981-82 exceeded 20 billion dollars and, despite slowing somewhat since then, continues to hamper the efforts of the de la Madrid administration to increase investment, manage the balance of payments, and renegotiate an unwieldy foreign debt.

This report begins with an overview of Mexico's current crisis and the dimensions of one of its most serious manifestations — capital flight. It then briefly examines the economic and political antecedents of the crisis
to show how Mexican development policy has stimulated a pattern of volatility in the behavior of Mexico's private-sector investors. This pattern, as we shall see, set the stage for the massive defections by Mexican capitalists that took place in the early 1980s. It also underlies the climate of uncertainty in the nation's capital markets which has crippled attempts by the de la Madrid administration to revive the Mexican economy.

The second part of this essay reports the results of a year-long study conducted among 28 Mexican "economic exiles" who, between 1976 and 1982, gathered up substantial amounts of liquid capital and relocated to southern California. This research explored the economic and demographic characteristics of this elite group of immigrants, their social and economic impacts on the community where they now reside, and their attitudes about Mexico's political system and economic future, as well as about life and culture in the United States. These data will hopefully contribute toward a better understanding of this unique immigrant population — an understanding which is not only critical for addressing Mexico's economic crisis, but has also become quite important for short-term development prospects in certain regions of the United States.

The purpose of this report is to shed some light on a phenomenon which, because of its clandestine nature, has for the most part escaped serious analysis. By demonstrating the pervasiveness and frequently understated economic importance of capital flight from Mexico, this essay seeks to correct a widely held misperception: that the expatriation of Mexican investment capital is an economically marginal act of dubious integrity which takes place only among a small group of unscrupulous politicians and ex-politicians. This report aims not to pass judgment on the behavior of any of the actors connected with the capital flight phenomenon; rather, it seeks to help solve the puzzle of Mexico's current economic impasse by analyzing one of its most persistent elements.

**Background**

In retrospect, Mexico's crisis of the 1980s seems almost inevitable. The crisis culminated a decade of expansionary fiscal policies financed through a combination of deficit spending and enormous foreign loans, which
the government planned to repay with the revenues from future petroleum exports. When added to a capital-intensive development model that for at least thirty years had failed to generate sufficient employment, these policies would seem to provide an obvious recipe for disaster. Hindsight gives us a perfect view of the resulting scenario: a burgeoning public sector, accelerating rates of inflation, rampant corruption in government, and excessive dependence on a single source of revenue — oil.  

However, dependence on petroleum exports was not an error that the Mexican regime could have avoided entirely, nor could it have foreseen the disastrous consequences of borrowing against future oil revenues. Oil had in fact come to the rescue of the Mexican political system in the late 1970s. Only by understanding this fact and the political context of Mexico's oil-based development strategy can we truly appreciate the logic of that strategy and the precariousness of Mexico's economy even during the years of the oil boom.

Ironically, the structural underpinnings of Mexico's current crisis date back to an era when the national economy was one of the fastest growing and most stable in all of Latin America. From 1940 to 1970, Mexican regimes followed conservative monetary and fiscal policies which produced real economic growth of 6-7 percent per year with very low inflation (less than 3% per annum during the 1960s) — the so-called "Mexican economic miracle." Although these policies were very effective in making Mexico's economy attractive to investors, their costs, especially political costs, were high: the imbalance of personal income distribution worsened considerably during this period, and unemployment grew steadily under the weight of increasing demographic pressure.

By the end of the 1960s, the political bill had come due. During the summer of 1968, when Mexico City was preparing to host that year's Olympic Games, students in the capital organized a militant movement aimed at embarrassing the regime by drawing the world's attention to Mexico's economic and political problems. The regime of Gustavo Díaz Ordaz (1964-70) responded with violent  

repression, killing at least 300 demonstrators in the infamous Tlatelolco massacre. Following that tragic incident, political protest became radicalized and began to spread, as rural guerrilla movements sprang up in several regions of the country.

Doubts about the viability of Mexico's development model and the stability of its political system became so widespread during the early 1970s that a current of thought advocating drastic political and economic reforms gained considerable strength within the ruling party. Beginning with the administration of Luis Echeverría Alvarez (1970-76), Mexico's leaders have tried to spend their way out of the country's structural problems, expanding the entire public sector in an attempt to increase the size of the economic pie. This public-sector expansion created new enterprises and new jobs, but it also resulted in ever-larger public deficits, financed largely through foreign debt. As a result, inflation levels rose from the 3 percent levels of the 1960s to an average of 13.7 percent annually during Echeverría's presidency and reached 27.2 percent in 1976, the last year of his administration. In that year, the government was forced to devalue the Mexican peso for the first time since 1954, from 12.5 to 23.5 to the dollar.

These events confirmed growing apprehensions among Mexico's private sector about the country's political and economic stability. Mexican regimes, fearing that Mexican investors would take advantage of the ease of moving their savings across the long, porous border with the United States, had fashioned fundamental elements of the country's economic policy with their interests in mind: they had kept taxes low and easy to evade, subsidized private industry, and established tariff and other policies to protect an inefficient and uncompetitive manufacturing and industrial sector. Nevertheless, Mexican investors responded to the deteriorating investment climate by confirming the policymakers' fears: in the mid-1970s the rate of capital flight from Mexico began to accelerate, establishing a pattern that would be repeated with every disruption of their confidence in the Mexican economy.

In this context the decision of the José López Portillo administration to borrow against Mexico's newly discovered petroleum reserves seems much more reasonable and understandable. In the late 1970s, oil markets looked very secure for producers, and the strategy of
accelerating development based on the promise of future petroleum earnings was politically irresistible. The oil discoveries had created high expectations among all sectors of Mexican society, and the López Portillo regime simply attempted to meet them. The resulting excess in spending — on social programs, subsidies for both consumers and producers, and infrastructure projects — overheated the economy and raised inflation levels still higher.

The misgivings created by these policies among private-sector actors exploded into the current major crisis after the collapse of the oil market in the summer of 1981. As the economy plunged to its lowest levels since the Great Depression, private Mexican investors began exporting their savings at such unprecedented rates that the ruling party now faces its severest political test since its consolidation during the late 1930s. The crisis resulted largely from the workings of exogenous forces in the world market, but government mismanagement, inefficiency, and corruption have also played significant roles in the erosion of private-sector confidence and the growth of capital flight.

The onset of crisis in June 1981 and its aftermath provide an excellent example of how government ineptitude contributed to the collapse of confidence among private-sector actors. On June 2, Jorge Díaz Serrano, then director of Mexico’s state-owned petroleum company (PEMEX), announced a reduction in the price of Mexican (isthmus) crude from $38.50 to $34.50 per barrel. Yet, however accurate his assessment of softening world demand for oil and the effects on the market of world overproduction, his failure to consult with President López Portillo before lowering prices constituted an act of unforgivable audacity. López Portillo denounced the action and summarily dismissed Díaz from his post.

Early the following month, his replacement, José Andrés de Oyteza, increased the price of Mexican crude by $2 per barrel in the face of extremely adverse market conditions. The appearance of inconsistency cost Mexico a number of petroleum supply contracts and accelerated the downward spiral of petroleum export revenues.² As a

result, the country ran a $6 billion balance-of-payments deficit in 1981, despite substantial increases in the value of manufactured exports (from $9.3 billion in 1979 to $19.8 billion in 1981). The Mexican peso came under immediate, intense speculative pressure, and the administration responded with a radical cutback in federal spending and a 50 percent devaluation of the currency in February 1982. Prices began skyrocketing; inflation reached 99% in 1982 and remained at stratospheric levels through the first months of the de la Madrid administration, which took office on December 1 of that year.

The reaction by the private sector was predictable and acute. According to the Banco de México, at least $22 billion in savings and investment capital fled the country during 1981 and 1982, compared with a total of $2.9 billion for 1980. Private deposits of Mexican citizens in U.S. banks, an important component of Mexican capital flight, grew by an amazing 38 percent in 1981 and by 29 percent in 1982 (see table 1). Faced with an unraveling economy, the López Portillo administration responded by nationalizing the banking system and imposed strict currency exchange controls in an attempt to prevent the expatriation of savings. These moves, widely interpreted as an unjustified intrusion by the state into the private sector, only prolonged and deepened the crisis of confidence among Mexican investors.

Despite the relaxation of currency exchange controls and other attempts by the de la Madrid administration to restore belief in the Mexican economy and its political managers, capital flight continued to exceed pre-1981 levels. Through black-market dealings, over- and under-invoicing of international transactions, gold sales, and couriers to the border, capital has continued to flee Mexico, albeit somewhat less frantically than in 1981-82. According to the most credible estimates, $3.7 billion left the country in 1983, $2.5 billion in 1984, and $5-6 billion in 1985, 70-80 percent of it to the United States.4

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<table>
<thead>
<tr>
<th>Year</th>
<th>Demand Deposits</th>
<th>T-bills</th>
<th>Other</th>
<th>Total</th>
<th>Real Growth Annual Rates</th>
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<td>1974</td>
<td>1079</td>
<td>5</td>
<td>224</td>
<td>1307</td>
<td>--</td>
</tr>
<tr>
<td>1975</td>
<td>1226</td>
<td>5</td>
<td>219</td>
<td>1450</td>
<td>2%</td>
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<tr>
<td>1976</td>
<td>1921</td>
<td>7</td>
<td>134</td>
<td>2062</td>
<td>34%</td>
</tr>
<tr>
<td>1977</td>
<td>1950</td>
<td>5</td>
<td>197</td>
<td>2152</td>
<td>-2%</td>
</tr>
<tr>
<td>1978</td>
<td>282</td>
<td>1894</td>
<td>5</td>
<td>2567</td>
<td>9%</td>
</tr>
<tr>
<td>1979</td>
<td>379</td>
<td>2098</td>
<td>7</td>
<td>2974</td>
<td>2%</td>
</tr>
<tr>
<td>1980</td>
<td>448</td>
<td>2540</td>
<td>8</td>
<td>3421</td>
<td>2%</td>
</tr>
<tr>
<td>1981</td>
<td>530</td>
<td>4090</td>
<td>12</td>
<td>5138</td>
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<tr>
<td>1982</td>
<td>672</td>
<td>5733</td>
<td>31</td>
<td>6880</td>
<td>29%</td>
</tr>
<tr>
<td>1983</td>
<td>709</td>
<td>6841</td>
<td>56</td>
<td>7947</td>
<td>11%</td>
</tr>
<tr>
<td>1984</td>
<td>758</td>
<td>9045</td>
<td>135</td>
<td>10426</td>
<td>26%</td>
</tr>
<tr>
<td>1985</td>
<td>1306</td>
<td>9812</td>
<td>260</td>
<td>12184</td>
<td>26%</td>
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For the most part, the owners of this capital are wealthy Mexican citizens who have invested their assets in time deposits, U.S. government securities, and real estate. Small-scale capital movements by secretaries, bank clerks, and other relatively low-income workers have grown substantially, but we may rest assured that the vast majority of the estimated $55 billion in assets held by Mexican nationals in the U.S. are in the hands of wealthy individuals. The main destinations for this capital, according to U.S. Treasury Department analysis, are banks in Texas and southern California, which eagerly seek Mexican Depositors large and small. Among all the countries in the world, Mexico is now the largest supplier of private funds to the United States (see table 2). Of each foreign-owned dollar on deposit in U.S. banks, about 16 cents are held by Mexicans.5

The phenomenon of capital flight has given rise to numerous policies and schemes to reveal and recapture the assets of prominent sacadólares ("dollar extractors") who have moved their wealth to the United States. In 1982, for example, the López Portillo administration published a list naming violators of the regime’s currency exchange regulations, a list which bore the names of government officials, noted industrialists, and several transnational corporations. In addition to denouncing these individuals in the official newspaper Diario Oficial, the regime initiated extradition procedures to repatriate at least some of the lost capital and to prosecute those implicated. These efforts, however, produced few results beyond ruining the reputations of those named, and subsequent efforts to impose sanctions on these individuals would have proved politically unworkable, even if they had the support of U.S. banks (which they do not).

The experience of the last ten years suggests that there is very little that the Mexican state can do to impede the movement of liquid assets by individuals who are willing to leave Mexico with their funds. For such people, only a restoration of confidence in the Mexican economy and government could induce a voluntary repatriation of capital to their homeland. The next part of this essay examines a small but powerful community of such indivi-

5 Pérez Escamilla, “The Mexican Government as Regulator.”
Table 2
PRIVATE FOREIGNERS' DEPOSITS AT U.S. BANKS
(millions of dollars at end of year)

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<td>France</td>
<td>403</td>
<td>423</td>
<td>372</td>
<td>297</td>
<td>132</td>
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<tr>
<td>Italy</td>
<td>722</td>
<td>521</td>
<td>340</td>
<td>439</td>
<td>124</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2617</td>
<td>4521</td>
<td>4014</td>
<td>4144</td>
<td>873</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3851</td>
<td>4125</td>
<td>3299</td>
<td>2132</td>
<td>756</td>
</tr>
<tr>
<td>Canada</td>
<td>6720</td>
<td>6527</td>
<td>4975</td>
<td>2230</td>
<td>609</td>
</tr>
<tr>
<td>Argentina</td>
<td>4222</td>
<td>3742</td>
<td>3179</td>
<td>2399</td>
<td>880</td>
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<tr>
<td>Brazil</td>
<td>1965</td>
<td>1772</td>
<td>1276</td>
<td>875</td>
<td>206</td>
</tr>
<tr>
<td>Mexico</td>
<td>12184</td>
<td>10426</td>
<td>7947</td>
<td>6880</td>
<td>2062</td>
</tr>
<tr>
<td>Venezuela</td>
<td>7775</td>
<td>6956</td>
<td>6036</td>
<td>5240</td>
<td>1140</td>
</tr>
<tr>
<td>Total Asia</td>
<td>7783</td>
<td>6732</td>
<td>6138</td>
<td>4551</td>
<td>1656</td>
</tr>
<tr>
<td>All Foreign Countries</td>
<td>74336</td>
<td>68312</td>
<td>56775</td>
<td>44122</td>
<td>12536</td>
</tr>
</tbody>
</table>

duals who have relocated to a wealthy neighborhood in San Diego, California.

The Mexican Economic Exiles of La Jolla, California

Among the various localities in the U.S. chosen by wealthy Mexican "post-devaluation exiles," certainly one of the most economically significant is the city of San Diego. According to an October 1985 report in *The Wall Street Journal*, an estimated 600 wealthy families had relocated from Mexico to San Diego in the 3-1/2 years between the 1982 devaluation and the date of the report. Estimates derived from my own confidential interviews with local banking personnel suggest that, between 1976 and 1985, Mexican exiles brought at least 3 billion dollars with them to San Diego. These individuals have thus made a significant contribution to the development of the city, particularly to the posh resort township of La Jolla, where their residences are concentrated.

Located in the northwestern corner of the city, La Jolla is famous for its fine restaurants, dramatic coastal topography, and extraordinary wealth. The population of La Jolla, according to the 1980 census, numbered 27,844,\(^6\) 4.3% of them listed as Mexicans. Between 1980 and 1985, moreover, the population of Mexicans in La Jolla is estimated to have doubled, with special impacts on the neighborhoods of Windemere and Alta La Jolla, where they make up some 25-35% of the total population.

This growth in the population of Mexican La Jollans has provided a powerful stimulus in residential construction. A 1980 housing census in these neighborhoods registered 3,899 single-family homes, with an average value of approximately $350,000. Today, according to the San Diego Chamber of Commerce, the number of houses has grown to nearly 6,100 and more are being built. The influx of Mexicans has also had predictable consequences for property values. Five to seven years ago, the average property sale in these neighborhoods amounted to about $400,000; now, largely because of an increase in land

values, the same properties are being appraised at between $600,000 and one million dollars.

The luxury of these residences gives ample justification to their price. Some have as many as seven bedrooms, none less than three; many have Greek statues, marble floors and columns, Roman-style pools, and extravagantly decorated interiors that often include art collections worth a million dollars or more. Outside, ostentatious landscapes complement the opulence of the dwellings themselves, evoking images of Greek monuments or even Japanese palaces. Seldom does the scene fail to include a magnificent automobile.

It was in these neighborhoods that I was able to gain the confidence of 28 heads of household so as to interview them regarding the personal histories, attitudes, and relationships that help explain their experiences as post-devaluation exiles. My contacts with them began casually, with unstructured interviews of one to two hours. Later, in order to develop a body of systematized data, I scheduled a second meeting to use as a basis for developing a questionnaire, which each respondent completed under my supervision during a third meeting, with the assurance of complete anonymity.

In the remainder of this essay, I present the results of those interviews. Because of both the size of my sample and the procedure of selecting interviewees, I would warn against using these data to draw statistical inferences about the larger population of post-devaluation Mexican expatriates in the U.S. However, the findings which follow provide at least a glimpse of an extremely important and heretofore unexamined immigrant population in the United States.

Background Characteristics

This study began as an examination and analysis of capital flight from Mexico caused by currency devaluations. Thus, in order to limit the analysis to persons whose decision to migrate was likely to have been influenced by the devaluations of 1976 and 1982, I chose as interviewees only individuals who had left Mexico after January 1, 1976 and before January 1, 1983. Of the 28 men chosen, 3 had arrived in San Diego before February 1976, 11 between February 1976 and the end of 1977, 4 between 1978 and 1979, and the other 10 after 1981.
Predictably, the elite Mexicans interviewed in this survey have relatively high educational and career status. The sample of 28 included 8 lawyers (and lawyer-politicians), six non-lawyer politicians, six doctors, three bankers, three architects, and two businessmen. All of them had completed secondary school (secundaria); 9 of them had continued their schooling through the twelve-year cycle which ends with college preparatory school (preparatoria); 16 had received four-year college degrees; and 3 had more than four years of university training.

The ages of the interviewees range from 38 to 67, with a median of 47. All of them are still married to their first wives, with the duration of their marriages ranging from 15 to 30 years. The wives are typically four to seven years younger than their husbands, and most of them have small families (by Mexican standards) of two or three children, whose ages range from 13 to 35.

Given their parents' socioeconomic backgrounds, it should not be surprising that these children have high educational and career aspirations. Most of them are planning or pursuing professional careers in economics, political science, business administration, medicine, architecture, or computer science. A typical scenario of second-generation aspirations among these families is to graduate from high school (preferably a private, Catholic one); pursue an undergraduate degree in a local university; then continue with postgraduate studies in a prestigious university in southern California, the eastern part of the United States, or abroad. Among the favorites are the University of Southern California, the University of California campuses at San Diego and Los Angeles, the University of Chicago, Case Western Reserve University, Columbia University, the Massachusetts Institute of Technology, and Oxford University. Many of them had already had educational experiences abroad: at least 36 children of the interviewees have had one or more semesters of schooling in Europe or Canada.

Unlike the pattern for working-class Mexican migrants, the economic exiles interviewed for this study originated without exception from urban areas, almost all of them from one of the three largest cities in Mexico: 18 are from Mexico City, four from Guadalajara, and four from Monterrey. The other two came from a major city of the second rank (Zamora, Michoacán).
Their choice of San Diego as a place of destination can be best explained by a phenomenon which fundamentally conditions their migratory experience, just as it does that of their working-class counterparts — the migratory network. Of the twenty-eight interviewees, four are blood relatives, eight shared a relationship of *compadrazgo* (fictive kinship), and ten were friends before coming to San Diego. Friendships developed after their arrival in San Diego complete the complex network of interrelationships which provided the social basis for this study of post-devaluation Mexican exiles. It was through these relationships that my originally narrow circle of acquaintances in this community grew, in snowball fashion, to include the twenty-eight respondents whose backgrounds, characteristics, and attitudes are reported in this study.

Just as it does for working-class Mexican migrants, the network of social and personal relationships has fundamentally conditioned the migration experience of the post-devaluation exiles whom I interviewed. When asked to relate their reasons for selecting San Diego as their destination in the U.S., for example, the respondents gave answers which clearly indicate the influence of their relatives and acquaintances (see table 3). In addition to the relationships themselves, the most consistently important factors in their choice of San Diego as place of destination were directly related to their contacts in the network and (presumably) the knowledge that they derived from it: the business environment, “word of mouth” and previous visits to San Diego, and the climate were the most frequently mentioned. On the other hand, factors which would suggest less importance for the network, such as “made up my own mind,” “medical reasons,” and “proximity to Mexico” were mentioned least often.

When asked whether they intended to make San Diego their permanent home, 100% of the respondents answered yes, in stark contrast to working-class Mexican migrants, for whom San Diego is usually just one stage in a long process of cyclical movement. Despite this intention, however, remarkably few of the interviewees had, at the time of response to the questionnaire, taken any steps to regularize their immigration status. Of the 28, only four had become permanent-resident aliens (holders of “green cards”); four were living in San Diego in violation of the terms of their 72-hour border-crossing cards (“shopping cards”); and 20 held tourist visas, six of which had been
Table 3
REASONS GIVEN BY POST-DEVALUATION EXILES FOR SELECTING SAN DIEGO AS DESTINATION

<table>
<thead>
<tr>
<th>Reason</th>
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</tr>
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<td>Business environment</td>
<td>28</td>
</tr>
<tr>
<td>Climate</td>
<td>27</td>
</tr>
<tr>
<td>Word of mouth or previous visit</td>
<td>26</td>
</tr>
<tr>
<td>Beauty of the community</td>
<td>23</td>
</tr>
<tr>
<td>Influenced by immediate family</td>
<td>9</td>
</tr>
<tr>
<td>Influenced by close friends</td>
<td>6</td>
</tr>
<tr>
<td>Influenced by compadres</td>
<td>4</td>
</tr>
<tr>
<td>Made up their own minds</td>
<td>3</td>
</tr>
<tr>
<td>Medical reasons</td>
<td>2</td>
</tr>
<tr>
<td>Proximity to Mexico</td>
<td>1</td>
</tr>
</tbody>
</table>

N = 28

expired for over a year. As of 1986, the immigration status of these post-devaluation exiles had changed somewhat. Among those holding tourist visas, eight have initiated immigration proceedings; five have had hearings on their cases (which are still pending); and the other three have requested hearings. The remainder of the sample apparently still did not feel compelled to regularize their immigration status.

Attitudes about Life in the United States

New Mexican immigrants to the United States, regardless of their class status, share the problem of overcoming a series of social and cultural barriers in adapting to North American culture. The differences between Mexicans and North Americans in attitudes, values, and lifestyle produce a culture shock among members of these immigrant communities. At least two-thirds of the interviewees in my sample felt that the U.S. and Mexican cultures “no se mezclan muy bien” (don’t blend very well).
As a result, the post-devaluation exiles that I interviewed have maintained social circles that are populated exclusively by Mexicans. They very seldom invite Americans to their social gatherings and do everything possible to preserve their Mexican identity and to restrict their interaction with the local culture.

When asked to express their feelings about the culture of California, a majority of the respondents expressed a hostility toward the “extrema cultura liberal de California” (the extreme liberalism of California’s culture). They focused their criticisms on moral issues such as teenage pregnancies, drug use, and what they perceive as the disintegration of families, a high divorce rate, the disappearance of religion as an element of family life, etc. In the words of one respondent,

The traditionally conservative Mexican arrives here to find a different world, in which everything is casual, where morality, although it is respected, occupies an inconspicuous place in society. This is the world in which fad and fashions originate, a place where the strangest and rarest of material goods are within everyone’s reach. California is beautiful, but it is very difficult to adapt traditional values to its extremely liberal culture.

Furthermore, unlike their children, whose educational and social experiences expose them to English on a continuing basis, the respondents have experienced considerable difficulty surpassing the language barrier. Thus, even though conducting business, traveling, exposure to the media, and the myriad transactions of everyday life bring immigrants into continual contact with the dominant culture, entrenched attitudes and the difficulty of communication place formidable obstacles in the way of assimilation. Because of threats to their values and those of their children, the Mexicans of La Jolla have created a social environment which is almost completely closed to Americans. These attitudes help explain why immigrants with very positive assessments of San Diego as a place to live choose to concentrate their residences in largely Mexican neighborhoods rather than scattering throughout the region.
The decision to leave Mexico under conditions of economic duress has created in the post-devaluation exiles a complex set of feelings regarding their homeland. Predictably they all share certain resentments about the conditions which made them feel compelled to leave their homes and disappointment at having to do so; yet their attitudes about Mexico are by no means unambiguously negative. All of them, to one degree or another, also experience nostalgia, and they almost without exception maintain strong family and cultural ties with their native country. Twenty-six of the 28 respondents reported having relatives still living in Mexico, and in all but one case, those relatives included members of the respondent's immediate family. When asked what they missed most about Mexico, the respondents answered mostly in terms of the "culture," the "Mexican way of life," and their own friends and relatives. Of the entire sample, 24 respondents (86%) answered that their most important longing for Mexico was culture, language, or personal friends.

With respect to politics, on the other hand, the feelings of the interviewees toward Mexico tended decisively toward the negative. The overwhelming majority opposed the economic policies of both the López Portillo and de la Madrid administrations, especially those who belonged to the private sector at the time of the devaluations. Only nine of the 28 respondents could think of Mexico's currency devaluations as protectionist measures that in the long run might somehow benefit the Mexican economy. The rest felt that the devaluations and the nationalization of the banking system had done nothing more than harm their economic future and encourage capital flight.

Certain anecdotes illustrating individual experiences help explain why they feel this way. For example, a doctor who owned a hospital at the time of the 1976 devaluation felt the effects of the policy primarily in the form of increased corruption. In his words,

At the time that the devaluation of 1976 hit us, we had already been making under-the-table payoffs to various health inspectors so that they would let us import American medical equipment without going through official channels. As a result of the devaluation, we could no longer afford these imports, but the inspectors doubled their "fees" because they were
hurting, too. The pressure became so great that we had to sell the hospital.

Similarly, an architect from the state of Jalisco stated:

I lived in Guadalajara for more than 20 years. I never wanted to abandon my country. Unfortunately, all that I had worked for was going to be lost because of the "nationalistic" policies of a government that was itself corrupt. Under no circumstance was I going to let this happen.

The minority of the respondents who defended the measures taken by both administrations was comprised entirely of lawyers and politicians. Their attitudes toward the government’s economic policies differ quite dramatically from those of the private sector. One retired politician, for example, made the following comment:

The fact that I left my country a few months after the [1976] devaluation does not mean that I hadn’t respected the López Portillo administration’s decision. In fact, I supported the need [sic] to protect the country against speculators; that’s why the devaluation was absolutely necessary. I personally left the country because I had been in politics for more than 25 years. What’s more, my last term had ended, and my family and I had already agreed that we would retire in California.

When asked how they felt about the role and responsibility of various administrations in Mexico’s economic upswings and downswings, interviewees from the private sector expressed a remarkable consistency of attitude. Regarding the government’s performance prior to the 1976 devaluation, for example, the consensus opinion was that even though the government operated with a well-known level of corruption, that practice was tolerable because “everyone had a piece of the pie” — that is, they were making money. They knew their bounds and limitations, and, morally upright or not, the country was moving forward.

When the Echeverría administration implemented the devaluation of 1976, most of the private-sector respondents placed their hopes and trust in the López Portillo administration, primarily because the country’s past
stability gave them confidence in the future. Moreover, they felt that López Portillo's "technocratic" régime could capably maneuver the economy through the straits of crisis and bring its problems under control. However, because the devaluation had taken them by surprise, they started moving their capital out of the country anyway, as a preventative measure — "before it was too late."

Later, these same individuals came to despise the López Portillo administration for the failure of its policies to defend private-sector interests. The following quote appropriately captures their sense of contempt:

The expansionist tendencies and continuous over-spending by the López Portillo administration are to blame for Mexico's current situation. After the devaluation, the uncertain future and high level of corruption among government officials only led us to lose faith in the country and the government. The private sector was forced to close businesses by the thousands, while the government continued expanding at an alarming rate. That disproportionality and negligence are what led us into crisis and debt.

Yet the most compelling evidence of the pervasiveness of popular disaffection from the López Portillo regime came in the form of responses by the nine public-sector interviewees who originally had supported the 1976 devaluation. When asked to evaluate the performance of the López Portillo administration, three of them voiced harsh criticism and opposition, four declined comment, and only two continued defending the régime's economic policies. Of the four who declined comment, moreover, two admitted that their reason for doing so was that any criticism of the government's policies would have resulted in their losing their political careers.

Regardless of whether they supported or opposed the government's economic policies after the 1976 devaluation, the interviewees generally shared a deep-seated pessimism about the future of the Mexican economy. When asked how long they had thought that the Mexican economy would take to recuperate (or at least stabilize) following the 1976 devaluation, all the respondents answered that they expected the crisis to last more than six months; 12 of them thought that it would take three to five years to achieve recovery; and eight of them said "never." Twenty-
two of the respondents reported that they expected economic decline to continue after 1976 (only three admitted having expected an improvement), and all 28 said that they had anticipated an increase in government corruption. Moreover, all but one of them expected at least one more devaluation after 1976. According to one respondent,

> Once the Mexican government devalued the currency in 1976, an automatic skepticism arose among us and, with it, a desire to beat the government at its own game. After the first devaluation hit us, speculation became the safest way for us to protect our money. The more the economic situation worsened, the more certain we were that at least one, if not several, major devaluations were on their way in the future.

In February 1982, that prediction came true. The ten respondents still in Mexico at the time of the second devaluation suffered a tremendous blow, and the nationalization of the banks in August came as the coup de grace. Some of them had remained in Mexico, they say, because they had expected their businesses to remain "more or less" profitable and in the long run to offset the economic losses suffered in 1976. Two hotel owners, for example, had seen an increase in average occupancy by North Americans because the 1976 devaluation had enabled them to buy more pesos per dollar. Others already had investments in the United States, which helped cushion the impact of economic reverses in Mexico.

In the long run, however, the attitudes of these ten respondents toward the politics and policies of the López Portillo administration became just as intensely negative as those of the other 18. The two hotel owners, for example, complained that the restrictions and intervention of the Ministry of Tourism had made their businesses unprofitable; one of them even reported that government officials had escorted him to the bank to ensure that he made his dollar deposits in Mexico rather than sending them abroad. The others focused their criticisms on the high degree of corruption in the political system, abusive governmental agencies, and astronomical levels of inflation.

With respect to Miguel de la Madrid, most of the respondents felt that his administration had begun on the
right foot, but they also agreed that he had taken the austerity program too far. Twenty-one of the interviewees criticized the administration's policies, and only two spoke favorably of them. Three more refused to comment, because, in their words, "everything was lost" anyway, and the private sector no longer has any rational motive for reinvesting in Mexico, no matter what economic policies the government might introduce. In the words of one exile,

The austerity policies instituted by de la Madrid have only served to worsen the economic environment. Instead of giving the private sector a hand, they have only frightened it. I understand that the foreign debt is eating us alive, but we also have to understand that the public sector cannot solve these problems by itself. On the contrary, the private sector is the backbone of the economic system; without it, we are never going to get out of this hole.

With regard to Mexico's future, the respondents' expectations were uniformly bleak. Several of them expressed the opinion that unless relations and communication between the public and private sectors improve, Mexico will soon experience another, deeper crisis from which it will never recover. According to one banker,

Nobody knows whether Mexico is going to survive this crisis. The demographic explosion is accelerating alarmingly, rural-to-urban migration is jamming people into the cities, the value of the peso is falling on a daily basis, etc. These are real things happening to 76 million people. The government should be aware of this. Moreover, just like my family and me, there are thousands of professionals just waiting for the first opportunity to leave the country. Very soon we are going to confront a brain drain worse than Cuba's.

Many of the respondents are deeply skeptical of the government's motives and behavior. Several of them indicated their belief that the government fabricates its reports of economic statistics in order to put the best possible face on an utterly hopeless economic situation. They expressed particular skepticism regarding reports of the magnitude of capital flight, claiming that former Treasury
Secretary Jesús Silva Herzog's estimates grossly understated the real amount of capital constantly leaving the country.

Three of the respondents did express a measure of optimism regarding Mexico's future, in large part because of the country's past economic performance and recent tradition of political stability. In the words of one of the oldest interviewees,

It's obvious that we are going through a period of "restructuring" in the Mexican economy after the crisis. So we should consider that the worst is over; for example, we didn't suspend payment on the foreign debt, the government has been able to lower the population growth rate by a large percentage. We have been able to maintain the country's political stability, etc. We only have to tighten our belt, and we'll prevail.

Quite predictably, when asked why they ultimately decided to leave Mexico, the respondents cited corruption in the Mexican political system and the government's economic policies more than any other reason. Many of them (67%) also argued that, at least since 1976, the Mexican government has failed to maintain effective communication with the private sector. The following anecdote told by the owner of three furniture manufacturing companies in northern Mexico helps illustrate the point:

We had three furniture manufacturing plants in northern Mexico; the furniture business was always very profitable for us. In 1976, we survived the first "thunderclap," and in 1982, while trying to keep our business afloat, we secured a large contract with the government. Unfortunately, the deal could never be closed because the government wanted a cut of our profits. After we had refused to give them what they wanted, they never left us in peace. As a consequence, they forced us to close one of our factories.

Another major reason given for leaving Mexico was the increase of labor militancy that came on the heels of the crisis. One restauranteur reported having successfully negotiated through three strikes in 1981 and 1982; when a fourth one broke out, he gave up trying to meet the demands of the union and turned his businesses over to
his employees. Within three months, three of the four restaurants had folded due to mismanagement.

Once they had decided to leave Mexico, the exiles of La Jolla experienced very little difficulty in getting their capital, which ranged between 1.3 and 6 million dollars per household, out of the country. The overwhelming majority of the respondents reported that they had been able to move their assets to the United States within three months after deciding to leave Mexico. The most common method that they used to transfer funds across the border was inter-bank transfers, which were usually performed by financial institutions such as American Express and Merrill Lynch. For many of the respondents, doing these transfers was simply a matter of making a telephone call.

Financial institutions were only one of the means used for getting money out of Mexico, however. Some of the respondents reported creating parent corporations in the U.S. for their businesses in Mexico so that they could request preferential dollars to pay fictitious accounts north of the border. The same device also enabled them to over- and undervalue invoices for the purpose of transferring funds. At worst, they could always deal with the black market, and several of them did so.

Notwithstanding the enormous volume of assets that they have expatriated and continue to extract from Mexico despite bureaucratic impediments, none of the respondents to my questionnaire has removed all of his assets from the country. Twenty-five of them still own real estate in Mexico, 17 still have business investments, nine have Mexican checking and savings accounts for emergencies and paying taxes, and twelve own stocks and bonds issued by Mexican companies. All of them stressed, however, that their holdings in Mexico were investments made before the onset of crisis and represent only a small portion of their total assets.

None of the respondents gave any indication of an intention to reinvest proximately in Mexico, and when I asked them what conditions might interest them in doing so, most of their answers were very negative. They did, however, share some general attitudes about what they thought Mexican economic policymakers might do to make the country more attractive to private investors. Practically all the respondents, first of all, felt that the government needs to assure investors that there will be no further
large-scale devaluations like those implemented in 1976 and 1982. They also agreed that the banking system should revert to private ownership and that economic policies should focus on stabilizing the value of the peso and restoring the confidence of the private sector. They feel that such policies should include increased control over the unions and labor militancy, wage restraints, investment and tax concessions, and a reduction in the number of state-owned enterprises. In the absence of such policies, they indicated no disposition to repatriate any of the capital that they have removed from Mexico.

**Impacts on the Receiving Community**

The immigration of Mexican post-devaluation exiles to La Jolla has had significant impacts on the community, particularly on the structure of the two neighborhoods where they are concentrated and on the local business community. When real estate developers created the Windemere and Alta La Jolla residential construction projects in the late 1970s, they marketed them as homes for the elite of the city. Only 2% of the homes in the area were sold to members of minority groups, and the developers made no provisions for Spanish-speaking residents, either in sales or residential services.

Eight years later, the scene had changed dramatically. What had been a monolingual English-speaking sales and service staff had been replaced with bilingual personnel, including the security guards at the entrance gates to the developments. Street signs formerly printed in English only now appear in Spanish translation. Neighborhood events now include the celebration of Mexican Independence, and Christmas and birthday festivities have taken on distinctively Mexican characteristics. The inclusion of American children in the breaking of birthday piñatas and other celebrations has stimulated an interest in Mexican culture and has led to an increase in the teaching of Spanish in local schools. North Americans seem to look upon their Mexican neighbors as a positive contribution to the community, and they see the introduction of Mexican culture as an intriguing novelty and even a means to improve understanding between the two nations. The Mexicans of La Jolla, who continue these traditions out of their sense of necessity to preserve their cultural legacy, are apparently quite willing to share in the exploration of this cultural “bridge.”
The local importance of these cultural impacts notwithstanding, the economic effects of the arrival of elite Mexicans to La Jolla have been much more profound and far-reaching. Almost without exception, the Mexicans of La Jolla are among the wealthiest people in the world. According to information provided by the 28 respondents to my questionnaire, their households alone accounted for an addition of 126 million dollars in liquid and fixed assets to the San Diego economy over the last ten years. Their investments have taken three principal forms: cash deposits in large local banks; the establishment of new businesses or the purchase of existing ones; and the acquisition of rental properties.

With regard to the magnitude of cash deposits by Mexicans, the comments of local banking officials proved quite instructive. One official of the Bank of America reported that, of the 270 to 300 of his bank's Pacific Beach and La Jolla customers regarded as foreign investors in the mid-1970s, roughly 30% were Mexicans. Today, the number of foreign investors has grown to almost 700, of whom nearly 60% reported a previous address in Mexico. Thus, in this bank at least, Mexicans accounted for 80% of the increase in foreign customers. Their deposits, moreover, are enormous: the initial cash deposits of these banking customers ranged from $250,000 to $400,000, and their balances typically remain between $550,000 and $800,000. The total of cash deposits and other liquid instruments held by Mexicans therefore must be on the order of at least 250 million dollars — in just one bank.

With regard to types of banks, the post-devaluation exiles of La Jolla prefer large, established ones. When asked about their preferences in financial institutions, 26 of the 28 respondents to my questionnaire answered that they would never trust their capital to a locally owned bank. One of them put the reasoning quite succinctly:

We can't take the risk any more. In Mexico we came very close to losing our capital. In our present situation, we would not survive the collapse of a small financial institution, so we have to be very careful about where we put our money.

The interviewees had sixteen accounts with the Bank of America, six in Security Pacific National Bank, five in
Crocker Bank, and only two in a locally owned bank, San Diego Trust and Savings. The respondents use these institutions only for savings and checking accounts; for financial planning, trading in the stock market, and the creation of tax shelters, they use firms such as American Express and Merrill Lynch, as well as other investment houses.

Besides bank deposits and securities, the principal investment activity undertaken by Mexican post-devaluation exiles is the establishment and/or acquisition of businesses. Remarkably, every one of the 28 respondents to my questionnaire had made some form of business investment, and five of them had more than a million dollars each at risk in private enterprises. Twelve of the respondents own or have shares in restaurants and bars, four have interests in retail stores, and three have invested in real estate development; hotels, investment firms, and commercial construction companies have each received capital from two of the interviewees, one has invested in automotive repair, one in auto sales, and one in sales of antiques and art. In addition, several of the respondents own residential and commercial real estate from which they derive rental income.

All together, the business investments made by the 28 interviewees in this study amount to at least 15 million dollars. The lion's share of their businesses are located in the La Jolla/Pacific Beach area of San Diego, and their impact has been significant. In the mid-1970s, the local economy, particularly that of Pacific Beach, was based mainly on seasonal tourism and was stagnating. The infusion of Mexican capital, however, has helped make the area into one of San Diego's most dynamic investment zones. The number of restaurants in Pacific Beach, for example, has increased from 27 in 1972 to 176 in 1986. Residential real estate has undergone a similar transformation. According to one respondent,

Back in 1977, when we bought our first apartment complex in the community, the rent for a two-bedroom apartment was $185. Today, the same apartment goes for between $550 and $665.
Summary and Research Agenda

This study of post-devaluation exiles from Mexico to southern California reveals the intensity of economic crisis in Mexico, the depth of the private sector’s lack of confidence in the Mexican economy, and the remoteness of any chance for the Mexican government to repatriate the capital that these investors took out of Mexico between 1976 and 1985. Because of the small size of the sample of interviewees and their non-random selection, the results of this study cannot be subjected to statistical analysis nor used to make unqualified generalizations about the larger population of elite Mexicans who fled the crisis in Mexico to live in the U.S. The results are, however, suggestive and bear close examination for their policy implications in both Mexico and the United States.

First, we may note that, despite the Mexican government’s emphasis on the phenomenon of dollars leaving Mexico, an equally important aspect of capital flight is the departure of professional, managerial, and entrepreneurial talent — a “brain drain” that Mexico can ill afford. If Mexico’s leaders intend to preserve the country’s privately based, free-enterprise economy, they must concern themselves with creating and maintaining the kinds of talent that will sustain such a system. In the long run, the only way to avoid alienating the upper echelons of the private sector is to orient economic policy toward growth in the private sector of the economy.

Second, the repatriation of flight capital from the U.S. to Mexico is highly improbable, given present economic scenarios. If the Mexican investors interviewed in this study are at all representative of other sacadólares, they will see their interests served better by keeping their capital in the U.S., regardless of what the Mexican government might do to improve the country’s economic outlook. Besides being more secure, many of their investments in the U.S. are now in fixed assets, which complicates their liquidation in the future. Furthermore, these investors’ attitudes toward the Mexican government seem irreversibly negative and perhaps even jaded.

Third, the stories told by the 28 interviewees in this study indicate that the restrictions on the exchange and movement of currency out of Mexico have had very little impact, if any. Economic policymakers in Mexico may therefore want to reconsider policies such as exchange
controls, which apparently have very little effect beyond diminishing the confidence of private-sector actors. The direction in which they should move — toward tighter restrictions or more fluidity — should be the subject of detailed study and careful decision-making at the highest levels.

Finally, from the United States’ point of view, the post-devaluation exiles have made an enormous economic contribution and are behaving much like other first-generation immigrants in terms of adaptation and acculturation. The exiles of La Jolla are resisting U.S. culture and language, but their children, like the children of immigrants throughout U.S. history, are assimilating quite comfortably into the receiving society. Very seldom in history have immigrants to the U.S. brought with them the sort of economic, social, and political power that the Mexicans of La Jolla are contributing to their new community.

What does this study suggest about what we still need to know? First, we should be very curious as to how we might generalize about the population of elite economic exiles from Mexico. The comments of bank officials about the size of deposits and other investments made by elite Mexicans suggest that even the largest estimates of capital flight from Mexico may understate the magnitude of the phenomenon. Confidential interviews with banking personnel in other border states, especially Texas, may give some indication of the total number of sacadólares, as well as the value of their investments. Another interesting aspect of the phenomenon which could be illuminated by such a strategy is the importance of capital flight practiced by Mexicans who have not left the country. Given what we now know about the ease of removing funds from Mexico, such practices must exist and could have devastating significance for the Mexican economy.

The number of issues affected by the phenomenon of capital flight is enormous. They range from investment and tax policy to matters of international trade, finance, tariffs, and even diplomacy. Because of the long-term impacts of capital flight on the economies of both the U.S. and Mexico, the subject deserves the most careful scrutiny.
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