plans covered by the language in §1129(a)(11). It is important to note further that the Case doctrine survives and is applicable only to a dissenting class.

If a plan proponent cannot meet the test of §1129(a)(8) and a party petitions the judge to confirm the plan under §1129(b)(2), other parts of Case are resurrected, but in a very limited fashion: that is, only as to cover the rejecting class. As to that rejecting class, the judge must be convinced that the plan is fair and equitable under the language of §1129(b).

Obviously, in a complex corporate reorganization case, there will be occasions where plans must be resolved through the judicial process rather than through acceptance by the majority holders of each class of claims. Chapter 11 provides a judicial standard to solve such problems.

--Walter Ray Phi ips

IV. NORTH AMERICA

ECONOMIC DISLOCATIONS IN THE U.S.-MEXICAN BORDER REGION - This is the most dynamic period along the U.S.-Mexican border since the raids and alarms of the 1910 Revolution in Mexico. While a new Pancho Villa or Emiliano Zapata has yet to appear, and while no grito has announced the beginning of a new revolution, the conditions along this 1200-mile frontier have been so exacerbated by the worldwide economic recession and by Mexico's and the United States' own particular brand of economic woe, that rumors of revolution and of economic raids have become standard items of periodic border gossip.

The background for this general tension has been widely publicized. The U.S. economy is in the worst position of nearly two-and-a-half generations. Mexico, during a brief period of oil prosperity, enjoyed an equally brief but massively publicized attempt to meet the promises for social change made during the 1810 and 1910 revolutions. Then the

Mexican economy was staggered by recent reversals when its oil revenues fell drastically short of earlier projections. Results were an inflation rate estimated at nearly 100%, the inability to meet commitments on $80 billion in foreign debt, two separate and disastrous peso devaluations, the nationalization of the country's banks, and a necessary but bitterly resented agreement with the International Monetary Fund which kept the country solvent but clearly pointed out that the promises for social reform had once again been set aside for the foreseeable future.

The conditions existing in either Mexico or the U.S. are sufficient to cause serious problems in local economies, such as high levels of unemployment, business failures, and other personal dislocations. However, when the conditions of both economies are combined, as is currently happening on the U.S.-Mexican border, the situation becomes even more complex and potentially grave. Recent news releases provide a summary of some of the economic complexities of the region.

In a recent Wall Street Journal article entitled "Hard Times at Home Cause More Mexicans to Enter U.S. Illegally," border patrol detentions for the past two to three months were reported up as much as 70-90% over the same period last year (Wall St. J., 11-17-82, pp. 1+). Interviews with detainees indicate that economic conditions in Mexico are a significant push-factor towards illegal immigration. Estimates of unemployment in the immediate border region run as high as 25% on the U.S. side and 40-45% in Mexico. More layoffs and restrictions of work hours appear imminent. While many individuals crossing the border unofficially are aware that the United States is going through difficult economic times, they feel conditions cannot be nearly as bad as those at home, and point to the widely publicized 10% unemployment rate in the U.S. as an indicator of relative prosperity as compared to their own position.

In another release, the Commerce Department indicated that the Mexican economic situation may be partly responsible for the record U.S. trade deficit this year, because of the significantly reduced purchases by Mexicans of goods from the U.S. (J. of Commerce, 11-29-82, p. 3A).

An example of the complexity of this condition is the border import-export liquor business. Thousands of dollars of liquor (Scotch, Vodka, and Drambuie) are imported from overseas each month by custom brokerage houses along the U.S. border and sold, duty-free, to the hundreds of curio shops in Mexican border towns. U.S. tourists then cross the border to purchase this liquor. Some high-prestige beverages cost from one-third to one-half less than the U.S. price. When the bottles cross back into the United States, a nominal state tax is collected for each bottle. A profit is made at each stage of the transaction (U.S. to Mexico to U.S.), and the tourist gets a bargain buy on liquor. However, current economic problems, especially the freezing of dollar accounts and the restriction on the use of dollars to purchase import goods, have caused havoc with this back-and-forth trading system. Lack of dollars to replenish their stock has caused the closure of some of the Mexican curio shops, which in turn has caused increased inventories, reduced cash flow, and in certain cases, closure of U.S. brokerage businesses.

The retail trade and real estate markets along both sides of the border are also sensitive indicators of current conditions. During 1980 and 1981 the retail trade and the real estate markets along the U.S. border were in an enviable position compared with those markets in the U.S. as a whole, and this prosperity was mirrored in the retail business of the Mexican zona frontera. The retail trade of any U.S. border town ran as high as 50-60% trade with individuals crossing over from Mexico. The most popular items were clothing and electronics equipment, both of which could be taken back into Mexico fairly easily in ways that circumvented the high import tariffs or other restrictions attached to purchasing these items in Mexico. The dealers with the highest sales volumes in the United States for such electronic equipment as Sony, Hitachi, and J.V.C. are located in relatively small border towns.

While the retail trade of a year or two ago reflected the comparative prosperity in Mexico, the real estate trade presaged current conditions. Rumors of devaluation and stricter economic controls in Mexico caused many Mexican nationals to purchase homes or property in the U.S., and real estate sales in the border region boomed at the same time a

general slowdown was occurring elsewhere in the U.S. The price of condominiums in border resort areas, such as South Padre Island, rose rapidly and triggered the construction of new projects.

In August the new monetary situation turned both retail and real estate sales around 180 degrees. The first devaluation, on August 5, merely slowed down both processes. Memories of successful business recoveries from the 1976 devaluation kept the general business climate in a guardedly optimistic mode by encouraging the belief that conditions were temporary and would adjust. But the second devaluation, the currency restrictions that accompanied it, and the nationalization of the banks turned optimism to pessimism. The effect of these conditions has been extensive layoffs in nearly all U.S. border town retail stores, as well as in Mexican border stores. In the real estate market, there is now a glut of houses and condominiums for sale, since many Mexicans who were purchasing condominiums could not get dollars out of Mexico to make their payments. Some beach property is available for the price of a token cash payment to the owner and the assumption of monthly payments on the existing loan. Some real estate brokers report not having sold any houses above the value of $30,000 for the past three months. And even such relatively broad-based retail stores as Sears and J. C. Penney (with significant sales to local, as well as Mexican, customers) indicate that pre-Christmas customer volume may be as much as 70% below that of a year ago, showing the combined effect of the reduced trade from Mexico and consequent layoffs and reduced trade from the U.S.

Perhaps the best indicator of current border economics is the overnight creation of hundreds of casas de cambio (unofficial entrepreneurial dollar/peso exchanges) in all the U.S. border towns. The major impetus behind these enterprises has been the divergence between the two fixed exchange rates of 50 and 70 pesos per dollar maintained in the interior by the Mexican government and the free-dollar trading rate that has hovered around twice the fixed 70-to-1 rate (Wall St. J., 10-12-82, pp. 1+). It has been widely speculated that the free-dollar exchange rate along the border will soon climb to 200-to-1. This situation has made it possible for a large number of entrepreneurs to set up a highly

profitable exchange business with a very limited capital investment. Many casas de cambio opened their operations with hand-lettered signs on the hoods of cars or on small aluminum picnic tables, but the successful enterprises are now likely to occupy "respectable" portable metal sheds or, in some cases, even more portable recreational vehicles. And while price wars and volatile rates distinguished the early stages of this system, the situation has recently become more stabilized. Most of the fluctuations in peso rates now take place on a daily, as opposed to an hourly, basis.

These peso/dollar exchange businesses were made possible by two conditions: the extreme reluctance of U.S. banks to exchange pesos for dollars and the intense desire of many Mexican nationals to do so. One example of the lengths to which people have gone to effect an exchange was related by an individual who is a permanent U.S. resident, but whose mother lives just outside Mexico City. The mother recently sent 800,000 pesos in cash to her daughter to exchange and put in a safety deposit box in the U.S. This cash bundle was passed through four sets of cousins, each living progressively closer to the border, before it was finally crossed over to this side. After such an odyssey, the desire to exchange pesos for dollars was not to be denied.

The woman's request that her currency be put in a safety deposit box is also indicative of the unsettled nature of the general situation along the border. In November, after the bank nationalization in Mexico, there was a virtual run on banks in south Texas border towns when the rumor spread through the Mexican towns of Reynosa and Matamoros that the U.S. government was going to freeze all bank accounts owned by Mexican citizens. Several banks were seriously depleted of cash reserves as people stuffed thousands of dollars into safety deposit boxes, regardless of assurances that individual accounts could not legally be frozen. Even now, this and other similar types of rumors are common in the border region. Consequently, only individual entrepreneurs are generally willing to exchange pesos for dollars. One result is that the currently accepted exchange rates for local businesses (and in some cases, for national business concerns) are being set by entrepreneurial speculators

rather than by established financial institutions -- a situation that creates nearly endless discussion and rumor about both the economic and the political consequences of a nearly archetypal local free enterprise system.

On the positive side, the peso speculation has helped a number of border businesses in both the U.S. and Mexico that might otherwise have failed. The manipulation of exchange rates in order to turn a profit can be quite complex. For example, some businesses in Mexico continue to be able to sell products for dollars. These dollars are taken to the U.S. and sold for pesos in a casa de cambio. The pesos are then recrossed, carried into the interior of Mexico, and used to purchase goods for sale at prices reflecting the fixed peso rates that obtain in the interior. These goods are transported to the border and, to complete the cycle, are sold either for dollars or for pesos at black-market prices available in some border regions.

As this article is going to press on December 20, the peso has just undergone another serious devaluation. The Mexican government has now established a three-tier system of 50-to-1, 95-to-1, and a legal free-floating rate, reportedly now at 150 or more pesos to the dollar. While the consequences of this latest devaluation and exchange system cannot be predicted with precision, certain conclusions may reasonably be drawn. Most immediately, the retail business on the U.S. side of the border, with but five days remaining before Christmas to salvage the year from economic disaster, has surely been dealt a devastating blow. This will contribute to the negative psychological impact of the devaluation on border business generally, the effect of which is likely to be felt far into the new year. The expectation of a 200-to-1 exchange rate will probably be moved up from six months to perhaps a few weeks away. With the floating rate now legalized, U.S. banks may decide to move back into the exchange business, thus eliminating the entrepreneurs. Finally, those businesses that manage to survive and prosper will become increasingly reliant on exchange-rate speculation and manipulation to turn a profit, and their well-being will most likely come at the expense

of individuals in the interior of Mexico, who must pay the price for that manipulation.

Obviously, the potential for profit and for disastrous loss that comes from manipulating the current situation on the border or failing to do so is enormous. For all practical purposes the Mexican border region -- la frontera, as it is called in Mexico -- and the border zone of the United States are inextricably intertwined in ways often unknown to or ignored by policymakers of both nations. Most of the policies and solutions to financial problems in both nations are directed at the conditions inherent in their respective central regions. Because border conditions differ markedly and are generally left out of the decision process, the policies adopted often exacerbate existing problems. This situation should not be allowed to persist. In the future, policymakers must address the different dynamics in the border regions in order to implement remedial actions that will reduce the serious problems present there today.

--Robert T. Trotter

V. EDITORIAL

EFFECTIVE GOVERNANCE: DEPENDENCE ON NEW KNOWLEDGE AND EDUCATED CITIZENS - With the implementation of the "new federalism," responsibility for meeting citizen needs that raise numerous complex social issues is shifting from the federal to state and local levels. Unfortunately, many state and local government agencies and supporting private organizations do not have the expertise to deal efficiently with these issues. Moreover, revenue shortfalls caused by the slow economic recovery are fueling community parochialism and forcing responsible government agencies to rely on dated knowledge that often does not accurately depict the dynamics of complex social issues. In commercial (as opposed to social) areas, however, states are expanding overseas sales of goods produced within their borders by aggressively assuming traditional federal functions and developing new knowledge about international