For a blue-collar view of the proposed US-Mexico free trade agreement, we reprint a position paper of the American Federation of Labor/Congress of Industrial Organizations (AFL-CIO). It was issued in February 1991, before Congress granted the fast track negotiating authority.

EXPLOITING BOTH SIDES: US-Mexico Free Trade

A Position Paper of the AFL-CIO

INTRODUCTION

The enactment of a free trade agreement with Mexico, as proposed by President Bush, would be an economic and social disaster for US workers and their communities.

Under current trade arrangements, tens of thousands of US workers have lost their jobs, and tens of thousands more have seen employment opportunities vanish, as US companies transferred production to Mexico, taking advantage of the poverty of Mexican workers and the absence of any effective regulations on corporate behavior.

A free trade agreement will only encourage greater capital outflows from the United States, bring about an increase in imports from Mexico, reduce domestic employment as the United States moves deeper into a recession, and accelerate the process of deindustrialization that has confronted this country during the 1980s.

The international economy has had a profound and negative effect on US workers during the past 10 years. The unprecedented shift in trade patterns has cost the economy hundreds of thousands of jobs, contributed to declining real income and made the United States the largest debtor nation in the world. There is no end in sight to these crippling deficits, and in 1990, the United States recorded its seventh consecutive year of merchandise trade deficits of more than $100 billion.

Central to this problem is the imbalance in trade of manufactured goods, which in 1990 accounted for $90 billion of the overall $101 billion US trade deficit. At the beginning of the decade, the United States enjoyed a trade surplus in this vital sector.

The impact of US trade deficit on employment has been severe. While total employment has grown during the 1980s, employment in manufacturing has declined by more than 2 million and the growth in non-manufacturing jobs has taken place largely in the lower-paying service sector. That sacrifice of well-paying and high-quality job opportunities in the middle tier of the nation's income structure is reflected in a decline of 13 percent in average weekly earnings since 1978.

These factors also have had a negative effect on the distribution of income in the United States. Low-and middle-income families have received an increasingly smaller share of the nation's income, while those at the top have substantially increased their share. Between 1979 and 1989, the 20 percent of families with the highest incomes saw their share of all family income increase from 41.5 percent to 44 percent. All other family income groupings declined.

"The supporters of a US-Mexico free trade agreement say it is a `ladder of prosperity' for Mexican workers; but all of the bottom rungs are missing. The reason that US corporations have established facilities in Mexico is not to promote economic development, or raise the standard of living and level of consumption there; it is to increase corporate profits."

— AFL-CIO Executive Council

Ignoring these serious problems, the US government has pursued a strategy of trade liberalization internationally, and deregulation domestically. Indeed, the withdrawal of effective government regulation in the domestic market over the past 10 years can be seen as the driving force behind this nation's current approach in the international arena.

The proposed free trade agreement with Mexico is merely the most recent, albeit extreme, manifestation of an ideological world view that believes overall progress can only be achieved if the organization and structure of economic and social affairs is left entirely to private capital. The damage caused by this approach during the past 10 years will be deepened by free trade with Mexico.

What is at stake is not more or less trade with Mexico, but the nature and quality of that trade. The United States will stand to lose in the competition for world markets if the economic relationship emerging with Mexico contributes to the further deindustrialization of the American economy and to the erosion of the skill base of this country.

Manufacturing skill is like a muscle — if unused, it becomes flabby.

Flabbiness is the likely scenario for the United States if innovation and technical change in the domestic manufacturing sector is blunted by the availability of cheap labor in Mexico, leading to loss of US skills and consequent meager productivity increases.

By the same token, a free trade accord ignores the social dimension of economic integration and may increase tensions and frictions between the two countries, thus sharpening differences and blocking the development of a more harmonious relationship.

This second point is vital for both the interests of the United States and Mexico. Unregulated trade for the United States will result in less job creation, fewer productivity increases, and regression in environmental and other social standards. For Mexico, it could well reduce that country's comparative advantage to simply cheap labor, turning Mexico's economy into one large export platform, sacrificing balanced and equitable economic development.

This view was emphasized in November 1990 by six Mexican leaders, including former Finance Minister Jesus Silva Herzog and author Carlos Fuentes, who wrote: "Low Mexican wages cannot be a permanent feature of North American economic relationships. That comparative advantage is too costly for everybody involved; too humiliating and unproductive for Mexican dignity and economic development; too costly in jobs and welfare for American and Canadian workers; too destructive for our common environment and civilization."

TO EXTEND THE US-CANADA FREE TRADE AGREEMENT

It has been argued that a free trade agreement with Mexico would merely be an extension of the pact entered into with Canada in 1989, thereby creating a North American free trade area.

The AFL-CIO opposed the US-Canada free trade agreement because we were, and still are, concerned that the agreement would inhibit US governmental efforts to address economic and social problems in the United States, while at the same time approving a significant disparity in the way the two governments involve themselves in economic development.

That being said, Canada, at least, has wage levels, living standards, and regulatory structures similar, if not superior, to the United States. Central to the differences between the United States and Mexico is the huge gap in wage levels.

A free trade agreement with Mexico, a country where environmental protection and job safety and health are almost nonexistent when compared to the US, simply invites disaster for US workers. The addition of Canada to the proposed negotiations does not in any way alter this basic reality.

TO COMPETE WITH EUROPE

Proponents say a US-Mexico free trade agreement is necessary to balance Europe's move to a single market, but that reasoning ignores a variety of factors that separate the European experience from the proposal now under consideration.

In Europe, a crucial aspect of on-going talks is the development of a social dimension: to set minimum workplace standards and benefits and to establish common regulatory regimes along with the freeing up of capital movements and the liberal-ization of trade. As currently described, US negotiations with Mexico will deal exclusively with trade and capital liberalization and ignore the social dimension of trade and production.

Secondly, the differences among European countries are much smaller than the differences between the United States and Mexico. While US gross national product per capita is 10 times that of Mexico, the richest nation in Europe, Germany, has a per capita income just five times higher than Portugal, Europe's poorest country.

Even though the gap in Europe is smaller, the process of integration in Europe is accompanied by massive transfers of direct aid to help accelerate development, and improve standards. The Bush Administration proposal concerning Mexico contains no similar aid component. Such aid to development and living standards is a government function, properly assumed in Europe, while a "free trade" agreement is the exact opposite — an abnegation of the responsibility to see that trade benefits the citizens of both nations.

Finally, the process in Europe began in 1958 with the Treaty of Rome, and has been characterized by extensive parliamentary debate at each step of the way. When the single market begins in 1992, it will be better because of the democratic process.

The US proposal is completely different. Right from the start, the Administration has tried to foreclose most of the discussion of a US-Mexico agreement and to maneuver Congress, through the use of the "fast track" process, out of the picture. They propose to negotiate a North American free trade area in six months, ram it through Congress on a simple yes or no vote and be finished with a process Europe spent 34 years on.

US-MEXICO TRADE

US trade with Mexico has grown rapidly during the past decade. Mexico is now the largest US trading partner after Canada and Japan. The United States had a $2 billion trade deficit with Mexico in 1990.

Imports from Mexico have increased 59 percent since 1985, reaching $30.2 billion in 1990. A major stimulus has been the massive devaluation of the Mexican peso and the coincident growth of the "in bond" or maquiladora program. This program effectively suspends Mexican import duties on US production-related machinery as well as components that are incorporated into exports and US duties on the US content of products imported from these plants.

Located largely in the border area, the maquiladora program has mushroomed in the past 20 years, growing from 120 plants to 1,800 and from about 19,000 workers to 500,000 today.

The significance of this activity is reflected in the growth of imports under Harmonized Tariff System Item 9802, which eliminates US tariffs on the US content of the imported products. The value of this trade has doubled since 1985 and the maquiladoras now account for 45 percent of all US imports from Mexico.

President Bush's free trade proposal would expand the maquiladora type of economic activity by encouraging US investment in Mexico for production for export.

The AFL-CIO believes that this type of program will make US trade problems larger and do little, if anything, to improve the lives of the vast majority of Mexican citizens.

The problems faced by Mexican workers are clearly demonstrated by the decline in the Mexican minimum wage, currently 59 cents an hour. The devaluation of the peso has made Mexican wages, in US dollar terms, among the lowest in the world. Worse, for most Mexican workers, this pay level is not only the wage floor, but also the wage ceiling.

This is not to say that no one benefits from this program. Certainly, the profits of US companies are increased, and a narrow group of managerial and political elites in Mexico are advantaged. US financial interests also have a major stake in expanded Mexican export earnings, which can be used to pay interest on Mexico's crushing debt burden. Today, 40 percent of Mexico's export earnings must be used to service its $95 billion debt.

The advantage for US corporate profits, US banks, and for similar Mexican elites is clear. But any benefit to US workers who lose their production jobs, or to Mexican workers paid subsistence wages, is difficult to discern.

"The enactment of a free trade agreement with Mexico... would be an economic and social disaster for US workers and their communities, and do little to help the vast majority of Mexican workers."

— Thomas R. Donahue
Secretary-Treasurer, AFL-CIO

EMPLOYMENT IMPACT ON U.S. WORKERS

The debate on the domestic employment effect of current US-Mexico trade relations — plus the likely employment impact of a free trade agreement — has been clouded by supposedly sophisticated economic studies and models that downplay negative employment effects. This type of analysis merely serves to camouflage the obvious.

The one thing we do know is that some 500,000 Mexican workers produce goods destined almost solely for the US market. If our market was being serviced by domestic production, even taking productivity differences into account, US employment would clearly be hundreds of thousands higher.

Tens of thousands of workers across America in companies like Electrolux, Tyco, Zenith, Westinghouse, Farah, GE, AT&T, GM, Ford, Chrysler — to name only a few — have seen their jobs disappear to Mexico. They, better than any model or projection, can describe the employment impact of this type of trading relationship.

Why should firms invest in the United States if they can move a hundred yards across the Rio Grande River and dramatically reduce their labor costs? Common sense — even without the proven example of the maquiladoras — shows us that a free trade agreement with a country where wages are less than one-tenth of ours will hurt US employment, income and productivity.

NO HELP FOR U.S. EXPORTS

Administration officials frequently cite the huge

Mexican market of 85 million consumers who presumably are clamoring to buy US-made goods and thereby boost US exports and improve the US trade position.

Unfortunately, the reality is somewhat different.

In Mexico, only about 10 million people are able to buy much of anything at all. The extreme poverty of the other 75 million means they are merely trying to survive and provide themselves and their families with food and shelter.

Secondly, it is likely that a free trade agreement would encourage growth along the lines of the maquiladora program. In this economic structure, there are no real exports. By definition, the US content is returned.

Indeed, it is estimated that 40 percent of US exports to Mexico are brought back to the United States as finished products. This is not trade; this is US rental of low-wage Mexican labor.

COMPETITIVENESS

The argument that US firms would be more competitive is really an attempt to justify the US corporate desire to duck the question of productivity and competition and get by on the short term with the easiest solution: cheap labor.

The transfer of production to Mexico under these circumstances turns the traditional concept of international trade on its head. Here, an industry's competitiveness or a nation's comparative advantage is not determined on the basis of the cost or quality of the completed product. Rather, comparisons can now be made for each stage of the production process in deciding on foreign or domestic sourcing.

The historic strength of the US economy has been based on a variety of factors, including a highly educated, productive, and well-paid work force; ample capital and natural resources; innovative production techniques; strong managerial skills; and continued technological advances. Together, these elements have led to the high standard of living enjoyed by so many Americans. This wealth and its continued growth also requires the buying power of the US worker-consumer.

Totally free trade permits a company to separate decent and justifiable wage levels from all other aspects of production. Mexico's single comparative advantage is the poverty that forces its citizens to work for subsistence wages. The skill, productivity and contributions of US workers become irrelevant in this context, and the growth of this activity threatens one of the essential pillars of the American economy. No matter how productive, US workers cannot compete with labor costs of less than one dollar an hour.

DEVELOPMENT

The huge differential in wages and its impact on economic development is illustrated by a pay stub from a worker at a Zenith plant in the Mexican city of Reynosa. For a 48-hour week, this worker, who is engaged in the manufacture of television and other electronic components, netted 71,700 pesos which, in February 1990, translated into $26.16. Gross pay amounted to 61 cents an hour.

Even by Mexican standards, this is low and gives workers little reason to be committed to long-term employment with a company — or even to be committed to their community. Few workers have benefits of union representation, and problems concerning occupational health and safety and the environment are rampant.

Mexico has not had the improvements in the quality of life normally associated with the level of economic investment Mexico has had for the past six years. This investment has brought beautiful, brand-new production facilities. It has brought a first-rate road from the plant to the US border. But it has brought nothing to the communities in which they are located.

For example, it is estimated that between 400,000 and 500,000 people in Juarez have no running water, sewers or electricity. Workers in many of the plants live in dormitories, or in shacks made of packing materials from the factory. Their drinking water is contained in 50 gallon drums previously used for toxic materials. Schools, hospitals, and parks remain unbuilt.

A few years ago, when Mexican wages were actually higher in dollar terms than they are today, the *Twin Plant News*, a magazine supportive of industry, published an article on the subject of wages stating: "There are ways to keep the minimum wage people at minimum wage." The article suggested "free or subsidized lunches" and assistance with transportation costs. It also asked, "How about a free kilo of tortillas each week or a few kilos of frijoles?"

The article went on to suggest that the employees of the US parent corporation could "clean out their closets of those items they will never get to again" and send them to the Mexican plant for distribution, "where it will do the most good." Remember, "many of the houses (on the Mexican side of the border) are poorly heated, if heated at all, and warm clothing and blankets feel good on those cold nights."

It is not credible to say that development in Mexico is assisted when people working 48 hours a week need handouts of food and clothing in order to survive.

Under these circumstances, Mexico's development is marginal at best. Subsistence wages do not generate the demand necessary for a healthy and growing economy. Even if permitted, the workers could not afford to purchase the products they produce. Claims by some that the existence of these plants boosts the economy of the US border region are simply not credible in light of $5-a-day wages.

Indeed, the reverse is true. The growth of US investment in the maquiladora industry has brought a corresponding reduction in Texas border income, relative to the US average.

The major increase is in health problems. Today in El Paso County, tuberculosis is double the national average, salmonella is three times the national average, and hepatitis-A is five times the national average. A free trade agreement with Mexico will simply encourage more of the economic activity that has proven to be harmful to the very people it purports to assist.

IMMIGRATION

Both the US and Mexican governments have argued that a free trade agreement will slow down illegal immigration by providing jobs in Mexico. Certainly, the creation of good jobs at wages that provide food, housing and a decent standard of living would encourage people to stay in their communities. Jobs at less than a dollar an hour, however, can only be expected to bring to the border people who, after a short time in the maquiladora, will continue on into the United States.

Beyond the question of immigration, the issue of labor mobility, despite US government assurances to the contrary, will be addressed in the proposed negotiations under the subject of trade in services. Mexico will be seeking, as it did in the trade negotiations, easier access for its population to enter the US market on a "temporary" basis to provide services.

In its submission in the Uruguay Round, the Mexican government stated "The expansion of the service exports of developing countries and their increased participation in world trade in services depends on the liberalization of cross border movement of personnel covering unskilled, semi-skilled, and skilled labor, and such effective access to markets for their service exports can mainly be realized through this mode of delivery." Temporary entry for providers of services was expanded significantly in the US-Canada free trade agreement, and there is no reason to believe the outcome will be different with Mexico.

SOCIAL PROTECTIONS AND THE ENVIRONMENT

The vast differences in regulatory structures and social protections will create serious difficulties for US production. The establishment of a US-Mexico free trade area would be, in commercial terms, no different than drawing a circle around Chicago, to pick one, and saying that inside that circle, US minimum wage or child labor laws wouldn't apply, occupational health and safety regulations need not be observed, workers' compensation and unemploy-ment insurance need not be paid, and environmental protection laws could be ignored.

All these standards and others like them impose costs on US producers. We as a nation, however, have decided those costs are necessary to improve the standard of living of all our citizens.

"If workers in Mexico earn only a fraction of what Ford workers in Detroit earn, but produce essentially as many engines as Detroiters [while not earning enough to buy a car], then potentially we have a problem that Henry Ford would understand: too many Fords, not enough customers."
— Walter Russell Mead

Noting this problem, an article in the *Arizona Republic* cited a Tucson-based consulting company that recruits clients with a flier stating that one of the advantages of doing business in Mexico is "minimal government regulatory controls, i.e., no OSHA, EPA, EEOC, AAP, Air Quality Control, etc."

This newspaper also catalogued a variety of problems confronting workers in the maquiladora industry, including the employment of a 13-year old girl in Nogales by General Electric on the 4:30 p.m. to 1:30 a.m. shift making electric wiring strips, the mishandling of toxic materials in the production process — with predictable pollution — and the growing use of used chemical drums to hold drinking water for workers.

The May 14, 1990, *Los Angeles Times* said that furniture makers have been leaving southern California and setting up production down the road in Tijuana in order to escape tough environmental rules imposed in 1988 on the use of solvent-based paints, stains, and lacquers. By moving, they also avoid paying California's workers' compensation insurance premiums, which cost employers a basic rate of 19 cents on each $1 paid out in gross wages because of the hazards of working with those solvents.

The pollution that California sought to eliminate merely originates a few miles away, across the border. Workers in the United States have lost their jobs, and Mexican workers are endangered by the absence of effective health and safety regulations.

On a larger scale, the 1990 federal Clean Air Act will impose ever increasing costs on domestic producers, and may generate even more transfers of production to Mexico. The solution is not to reduce the effort against pollution, but to address the related problems such efforts produce.

All along the US-Mexico border, drinking and irrigation waters are being polluted, and fish and wildlife face extinction. The fragile ecosystem is endangered by indiscriminate dumping of waste in land dumps. The region lives under the threat of toxic poisoning caused by transportation or industrial accidents. Adequate waste treatment facilities are lacking on both sides of the border, and health problems are skyrocketing.

Mexican workers in the maquiladora plants are frequently denied basic health and safety protections against occupational illness or disease, and they risk the loss of their jobs if they protest these dangerous conditions. Commenting on the maquiladora industry, the *Wall Street Journal* on Sept. 22, 1989, stated, "Their very success is helping turn much of the (Mexico-US) border region into a sink hole of abysmal living conditions and environmental degradation." A March 1990 report of the US International Trade Commission quotes two Mexican government officials on environmental problems. One stated "protecting the environment is a luxury activity: it has a price." Another states that "Mexico does not want industries that pollute, but we must remain competitive, that's why we don't push environmental enforcement."

WHAT CAN BE DONE

The AFL-CIO believes that the huge current differences between the United States and Mexico make the establishment of a free trade area both damaging to US workers and of little benefit to Mexican workers. It would only serve to perpetuate a division of labor that separates the people of the two nations into low-cost producers on the one hand and consumers on the other. In order to prosper, people need both to work and to consume; and US efforts should be directed to that end.

The problems of poverty and economic development in both the United States and Mexico are too serious to be left to the interests of private capital. Mexico needs significant debt relief, so it can invest in its own future; foreign aid, so it can improve standards and enforcement; development planning and efforts to raise the wages and living standards of Mexicans; and efforts to correct the environmental degradation of the border area.

These elements must be dealt with on a governmental level before any consideration is given to further trade liberalization. This is particularly true of those US-owned manufacturing plants, the maquiladoras, in which exploited Mexican workers produce goods for the US market. If they are not addressed, the majority of people in both countries will be harmed by international trade.

The Bush Administration's free trade proposal does not address any of these issues — all vital to improving the relationship between the United States and Mexico. Granting the Administration "fast track" negotiating authority will sidetrack these issues into separate commissions, studies or committees.

The Administration is asking Congress for a blank check to negotiate a free trade agreement with Mexico, an agreement unprecedented in US history. Certainly, the economic and social upheaval from such a pact deserves more consideration, exami-nation, and debate in the Congress and the nation than the "fast track" process would allow.

This is all the more true since fast track authority is not necessary to negotiate with Mexico. Congress can direct and the executive can undertake discussions without this special authority. Any agreements reached would then have to be brought back to Congress for its consideration under normal legislative procedures. The AFL-CIO believes that to address positively the problems between the United States and Mexico, Congress and the US people must play a major and continuing role. ■