DEVELOPING A WORKFORCE FOR THE GLOBAL ECONOMY

By Harley Shaiken

Abstract: *NAFTA was expected to expand trade, create jobs, and raise wages across North America. Trade certainly took off, but critics of the agreement point to U.S. manufacturing job losses and stagnant or falling real wages for workers in both the U.S. and Mexico. Rather than walk away from trade with Mexico, a far better and more realistic alternative is a trade agreement that ensures improved rights for Mexican labor, simultaneously enhancing the bargaining position of U.S. and Canadian workers. Absent changes to labor standards, we condemn workers in North America to more dislocation and lower wages and destroy an opportunity for truly innovative workforce development and highly competitive economies.*

Trade can be a powerful force to fuel strong sustainable economic growth. The choice a trade agreement provides is for living standards to harmonize upwards, laying the basis for a broadly shared prosperity, or to slide downwards, with damaging consequences for workers and communities. The promise of NAFTA almost a quarter century ago was to expand trade, create jobs, and raise wages across North America. Trade certainly took off, but the reality has been far different for jobs and wages.

While profits flowed to investors and large corporations, U.S. manufacturing workers saw severe job dislocation, and workers in the U.S. and Mexico faced stagnant or falling real wages. As the NAFTA renegotiations unfold, labor rights have emerged as a central concern. The issue isn't exactly new. Two months before the vote in 1993, I wrote an opinion piece in *The Washington Post* that began, "Among the flurry of statistics on NAFTA one fact stands out: Mexican workers are producing considerably more and earning considerably less than they did at the beginning of the 1980s. This combination of higher productivity and lower wages could send both U.S. jobs and wages heading south."

What do conditions look like on the ground now? I accompanied Congressman Sander M. Levin, the senior Democrat on the U.S. House Ways and Means Committee, on a fact-finding trip to Mexico in August 2017 to find out.

The booming auto industry in Mexico—almost 20 percent of manufacturing GDP and over a third of manufacturing exports—is a place to start. The performance of this industry is a tribute to Mexican workers and offers real possibilities for Mexico. Consider a new $1 billion BMW assembly plant in the northern Mexican state of San Luis Potosí that will produce the BMW 3 series, a luxury sports sedan that costs $40,000 or more. The gleaming state-of-the-art plant will employ 1,500 workers when it opens in 2019. Typically, new plants such as this one achieve productivity and quality comparable or even higher than in the U.S. or Canada, potentially paving the way for high wages for workers and a road to the middle class in Mexico.

What will these BMW workers actually earn? They'll start between $1.10 and $2.53 an hour, according to Bloomberg. Are these just market forces of supply and demand working themselves out? Not at all. A company union, typical of much of Mexico's export sector, negotiated a "protection" contract in 2014 before a single worker was even hired. These wages aren't simply low, they are suppressed by a lack of labor rights.

Investors might cheer in the short run, but depressed wages damage Mexico in the long run. Rock-bottom wages in a world-class assembly plant set a standard that leads to even lower wages in supplier plants and other spinoff jobs throughout the economy. The flip side of depressed wages is diminished purchasing power and slower economic growth. Moreover, Mexican workers trapped in high-productivity poverty set a standard that will press down on wages in the U.S. and Canada. In the U.S., the context for this downward pull is that the average pretax real income per adult of the bottom 50% has been stagnant from 1980 to 2014, according to UC Berkeley Professor Emmanuel Saez. In fact, men's median wages for full-time work have been mired at mid-1975 levels, according to the 2017 Census Bureau report on "Income and Poverty in the United States." In 2016, the median for a year-round, full-time worker was $51,640 compared with $51,766 in 1975, all expressed in real 2016 dollars.

A labor system stacked against workers has distorted comparative advantage, Ricardo's nineteenth century notion that if each country concentrates on what it does best, all countries benefit. Comparative advantage based on innovation, quality, and productivity fosters sharp competition that may be tough but can be in everyone's interest. Mexico's comparative advantage, however, has become a lack of labor rights. Moreover, suppressed wages in Mexico combined with an investment security on par with Ohio exerts a magnetic attraction for new investment.

Mexico is projected to become the fifth largest auto producer in the world by 2020, producing 5 million light vehicles annually. Five new plants will open between 2016 and 2019 alone. And output is not simply small low-margin cars, but includes the Audi Q5, Lincoln MKZ, and Cadillac Escalade, among other luxury offerings.

What does this mean for jobs? The Economic Policy Institute concludes that between 1993 and 2013, the U.S. lost 850,000 jobs as a result of NAFTA—and this figure does not include the impact of much of the new surge in auto investment. U.S. auto jobs have slid from 1,275,000 in 1998 to 934,000 in 2016, a loss of 341,000 jobs. In Mexico, auto jobs increased from 185,000 in 1998 to 740,000 in 2016, a gain of 565,000. Last year, almost 80 percent of Mexico's output was exported to the U.S. and 9 percent to Canada.

The issue, however, isn't simply the employment effects of trade between the U.S. and Mexico but rather the impact of NAFTA as a model—strong investment guarantees and weak or nonexistent labor rights—for U.S. trade engagement with the world. U.S. manufacturing jobs overall slid from 17.6 million in 1998 to 12.3 million in 2015, a drop of 30 percent, or over 5 million jobs.

Clearly, many factors played a significant role in this job loss from automation to new ways of organizing work. Paul Krugman, however, points out that as much as half of the dislocation between 2000 and 2016 could be attributed to offshoring. Daron Acemoglu and colleagues also reported in a 2016 paper that Chinese imports from 1999-2011 displaced 2-2.4 million jobs, 1 million of which were directly in manufacturing.

The problem is not a growing, vibrant Mexican economy or auto industry—that could be in the interest of all countries in a trade agreement—but rather severely depressed wages as the lure for new investment. That combination leads to high-productivity poverty. On my recent trip to Mexico, a female leader of a highly regarded NGO in Piedras Negras, a Mexican border town with many assembly plants, told us "eggs are a luxury item now" because wages have shrunk so drastically.

After delaying labor reform for two decades, Mexico ratified a constitutional amendment on February 17, 2017, that added much-needed transparency to the labor relations system. The amendment allows workers to vote for union officers and to ratify contracts. While the reform is a step in the right direction, the "secondary" legislation to implement it has yet to be passed. The final result could diminish or even negate the reform's impact. It's hardly encouraging that the proposed legislation to add transparency was put together without input from independent unions, among other stakeholders.

Is the solution to simply turn our back on Mexico? No, this approach is neither desirable nor feasible. A far better protection for U.S. and Canadian workers is a trade agreement that ensures better rights for Mexican workers. If Mexican labor rights were better protected, the bargaining position of U.S. and Canadian workers would improve and of course the reverse is equally true. Corporations would benefit from expanding markets and trade could fuel what the legendary U.S. labor leader Walter Reuther called "high velocity purchasing power."

Strong language and enforcement in the agreement are necessary, but hardly sufficient. Demonstrated reform in the labor area in practice must be the precondition for signing the new deal, not simply its promise. Otherwise, the new agreement will lock in a dysfunctional and destructive status quo for another quarter century.

There are many critical issues in the NAFTA renegotiation beyond labor standards—from climate change to dispute settlement to rules of origin. Absent changes to labor standards, however, we condemn workers in Canada, Mexico, and the United States to more dislocation and lower wages.

Without demonstrated labor reform in Mexico, the danger is that we go back to the future. I concluded my 1993 *Washington Post* article by saying, "The real issue is that U.S. workers will be competing with Mexican workers under circumstances in which Mexican workers have little leverage to change their economic situation.... Accepting NAFTA on these terms could do more to knock U.S. workers out of the middle class than enable Mexican workers to enter it."

Will this conclusion describe economic conditions a quarter century from now? To avoid this, a renegotiated trade agreement must build a highway to the middle class for workers across North America, laying the basis for innovative workforce development, highly competitive economies, and democratic societies.

Harley Shaiken is Class of 1930 Professor of Letters and Science and Director of the Center for Latin American Studies at UC Berkeley, where he is a Professor at the Graduate School of Education and a member of the Department of Geography.