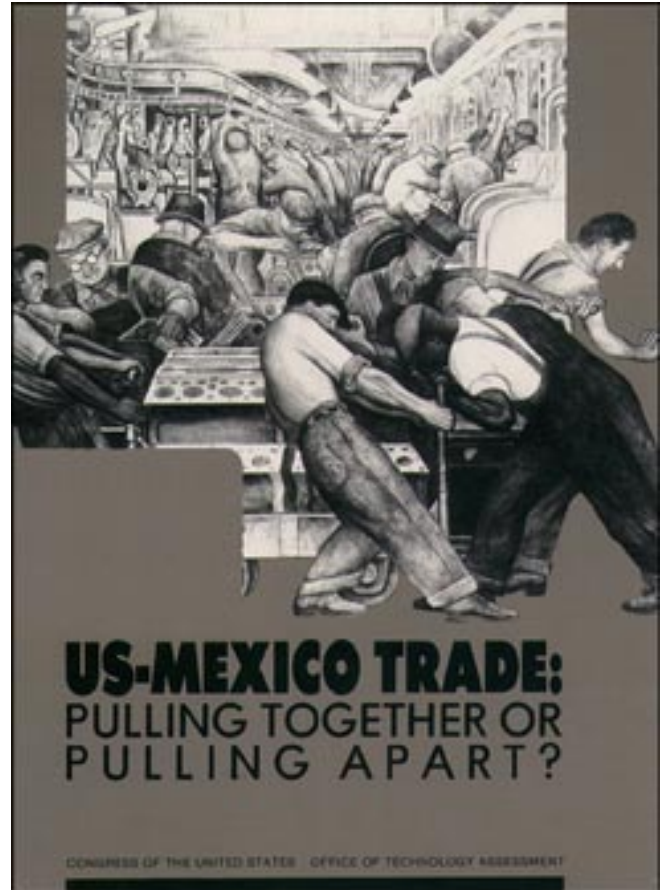


*U.S.-Mexico Trade: Pulling Together or
Pulling Apart?*

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Foreword

In a matter of months, Congress will be asked to ratify or reject what is likely to be the final round of debate over the proposed North American Free Trade Agreement (NAFTA). One side in this debate argues that a NAFTA will mean increased prosperity for the United States and Mexico. Others hold that it would lead to ruthless economic competition based on low wages, and hence to stagnant productivity on both sides of the border. The most dismal predictions see a wholesale movement of U.S. manufacturing to Mexico.

In this report, requested by the House Committee on Education and Labor and the Senate Committee on Labor and Human Resources, OTA finds little likelihood that a NAFTA, by itself, will lead to the most dismal scenarios. But OTA's analysis also indicates that market forces alone are not likely to produce the social and economic rewards the heads of both states have promised from a free trade agreement.

For both countries, the key to success in managing the social and economic transformations of the coming decades lies with the institutions that frame public and private choices---decisions made by employers, by workers, by government officials. In the United States, that framework still reflects the mass production era of the first half of the century, when labor and management hammered out an uneasy accommodation and the Federal Government in the New Deal years took on greater responsibilities for managing the macroeconomy and providing a safety net for laid off workers and their families.

More recently, Washington has been backing away from these responsibilities, without replacing them with new institutions and new policies suited to a 'postindustrial' U.S. economy that is much more a part of the world economy than even a half-generation ago. The NAFTA debate provides an occasion to reconsider U.S. institutions. Among the reasons for doing so, perhaps the most pressing lies in the social strains that would be created by a future of dead-end jobs for less educated workers in the lower half of the Nation's income distribution.

The subtitle of this report is intended to convey one of its central findings: labor, management, and society at large must pull together in the United States, or the social strains created by 'globalization' could pull the Nation apart. The subtitle also conveys a second message: Mexico and the United States, neighbors sharing a 2000-mile border and distinguished by a host of cultural and institutional differences, cannot negotiate a divorce. Their economies are intertwined, and will become more so in the future. A NAFTA could bring out the worst in each nation, or it could put them on the path to mutually supportive high-wage, high-productivity strategies.



JOHN H. GIBBONS
Director

Advisory Panel—U.S.-Mexico Trade

John Stepp, *Chairman*
Restructuring Associates

Diego Asencio
Former Assistant Secretary of State

William A. Raftery
Raftery Consultants

Steven Beckman
United Auto Workers

Mark Ritchie
Institute for Trade and Agriculture Policy

Robert Dillon
Sony Corporation of America

Elizabeth Santillanez
Western Governors' Association

John T. Eby
Ford Motor Company

Steven Schlossstein
SBS Associates, Inc.

Sheldon Friedman
AFL-CIO

Robert Swadell
PALCO

M. Patricia Fernandez Kelly
The Johns Hopkins Institute for Policy Studies

Sidney Weintraub
University of Texas

Peter Morici
The University of Maine

Vim R. Whiting, Jr.,
University of California at San Diego

Harold Eugene Nichols
Local 717, International Union of Electrical,
Radio, Machine, and Furniture Workers

Len Young
AT&T

Robert Paarlberg
Wellesley College

Raul Yzaguirre
National Council of La Raza

Michael Piore
Massachusetts Institute of Technology

NOTE: OTA appreciates and is grateful for the valuable assistance and thoughtful critiques provided by the advisory panel members. The panel does not, however, necessarily approve, disapprove, or endorse this report. OTA assumes full responsibility for the report and the accuracy of its contents.

OTA Project Staff—U.S.-Mexico Trade

Lionel S. Johns, *Assistant Director, OTA
Energy, Materials, and International Security Division*

Audrey B. Buyn, *Program Manager
Industry, Technology, and **Employment Program***

John A. Alic, *Project Director*

Margaret L. Hilton, *Deputy Project Director*

Kenneth E. Freeman
Stephen A. Herzenberg
Gretchen S. Kolsrud
Jerry R. Sheehan

Contributors

Robert D. Atkinson
W. Wendell Fletcher
Deanna Haremend, *Congressional Research Service*
Michael J. Phillips
Elizabeth G. Tsehai
Howard Wial

Administrative Staff

Carol A. Guntow, *Office Administrator*
Diane D. White, *Administrative Secretary*

Publishing Staff

Mary Lou Higgs, *Manager, Publishing Services*
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Cheryl Davis Dorinda Edmondson Denise Felix
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