Chapter 2

Policy Issues and Options:

Incentives for a High-Productivity Future

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Incentives for a High-Productivity Future

Despite assertions to the contrary, there is no reason to believe that a North American Free Trade Agreement (NAFTA) would automatically benefit the United States (see ch. 1, box l-B). But OTA's analysis indicates that **a NAFTA, if coupled with other policies designed to strengthen the foundations of each economy, could** work to the benefit of both Mexico and the United States.

This chapter discusses two major groups of policy options designed to stimulate high-productivity development---domestic policies, which would not require bilateral or trilateral negotiations, and continental policies. Table 2-1 summarizes the options in each group. (The identical table appeared in ch, 1 as table l-l). Both sets of policy options are based on analysis of what it takes to guide a market economy along a high-productivity path. Studies of dynamic industries and countries suggest that the most important factor is the institutional context in which marketplace competition is embedded (box 2-A). The most productive market economies are not necessarily the least regulated, but those in which institutions-e. g., industry and trade associations, labor unions, corporate structures and policies, legal systems, and informal norms-encourage firms to compete in ways that are economically productive

Table 2-l—Summary List of Policy Options

L Domestic Policy Options

Issue *Area A: Promoting a Productive Economy* **(for further detail, see table 2-2)**

1. Approve a modified version of the High Skills, Competitive Workforce Act of 1990
2. Create a comprehensive worker adjustment program
3. Expand Trade Adjustment Assistance
4. Certify basic skills of new labor force entrants
5. Broaden and deepen links between firms
6. Create a Regional and Community Adjustment Corporation, focusing on direct public job creation

Issue *Area B: Curtailing Low-Productivity Strategies* **(table 2-3)**

1. Establish national commitment to social welfare through a U.S. Social Charter
2. Discourage low-wage strategies and reduce income inequality through wage and tax policies
3. Discourage State and local economic development based on "bidding wars" to recruit new industry

Issue *Area* **C:** *Participation in a Productive Economy* **(table 2-4)**

1. Create a Labor Market Productivity y Center to foster consensus-building and expand institutional support for work reorganization
2. Create Employee Participation Committees to provide worker "voice" in nonunion as well as unionized companies
3. Extend union representation to more workers and industry sectors
4. Foster institutions for worker voice in the service sector

II. Continental Policy Options (table 2-5)

1. Negotiate a North American Social Charter and establish a North American Commission for Labor and Social Welfare
2. Establish procedures for continental management of trade and investment in autos and other sectors
3. Create a Binational Commission with stable funding to improve the environment and infrastructure in the border region
4. Provide technical assistance to Mexico for improving worker health and safety
5. Provide loans and aid for balanced economic development in Mexico
6. Establish North American works council to represent employees of companies operating in more than one country
7. Provide trilateral dispute resolution on labor issues
8. Negotiate shorter work time for the continent
9. Establish a Commission on the Future of Democracy in North America

SOURCE: Office of Technology Assessment, 1992.

Box 2-A—Institutions in a Market Economy

The collapse of communism in Central and Eastern Europe and the stagnation of developing country economies with high levels of government intervention underline the virtues of markets in fostering efficiency and decentralizing power. Variations in economic performance among capitalist economies, on the other hand, indicate that deregulated markets do not always translate into the highest performance. German and Japanese institutions differ substantially from each other and from U.S. institutions. These institutions shape corporate decisions and worker behavior.

The right kinds of institutions can help an economy deal with market failure, in particular.

- underinvestments by employers in human resource development and in implementation of new technology (the "software" or "humanware" of work organization as well as the hardware of product and process); and
- the inability of markets alone to ensure cooperation within firms and an appropriate mix of competition and cooperation among firms.

Institutions, Human Resource Development, and Technology Diffusion

Firms in market economies underinvest in human resource development and new technology because they cannot appropriate all the returns from their investments (see Domestic Policy Options, Issue Area A). Companies underinvest in human resource development if workers can be "poached" by "free-riding" competitors. (Human resource development includes not only classroom training but structured on-the-job learning, improvement of interpersonal skills, team-building, and development of the organizational competence and flexibility characteristic of high-performing companies). Companies lose a portion of investments in new technology if the individuals or groups in which technological learning is embodied move to competing firms.

A socially optimal degree of human resource development requires institutions that enable firms to appropriate the full benefits of training and technology investments. Japan and Germany do this quite differently. In Japan, employment security (for some), and the fact that employees cannot easily change jobs in mid-career, mean that firms retain most of their investments in people.[1] In Germany, strong labor unions, a dense network of geographic and sectoral industry associations, and supportive government policies underlie a longstanding system of multifirm apprenticeship and training. Though voluntary, these policies and programs lead most companies to invest heavily in human resources.

A market economy needs other institutions to solve the problem of underinvestment in technological learning. In Japan, employment security and financial linkages among networks of end-product manufacturers and suppliers permit groups of firms to share the benefits of their investments. Industry associations, largely horizontal, perform similar functions in Germany. Both countries rely more than the United States on government to diffuse technical know-how to small- and medium-sized firms.

Institutions, Labor-Management Relations, and Cooperation Among Firms

Two pervasive features of market economies inhibit cooperation between workers and management and between suppliers and their customers. First, the interests of workers and employers often differ, and neither party's separate interests necessarily coincide with the joint interests of both parties or of society as a whole. A similar divergence of interests exists between firms that sell to one another. Second, workers or suppliers may have knowledge that employers or customers cannot readily obtain, but that could benefit both parties-and society-if shared. This may be knowledge about how to improve productivity on the shop floor, how to prevent product failures in the field, or how to design products that will better meet market needs. When interests and information diverge, workers or suppliers may withhold their knowledge--fearing, for example, that divulging it will lead to layoffs or price reductions-and pursue individual goals at the expense of joint and social priorities.

Two kinds of institutions can increase information-sharing and cooperation within market economies (Domestic Options, Issue Areas B and C): voice or participative institutions; and constraints on forms of competition harmful to workers or suppliers. Voice institutions-unions, works councils, regularized consultation between companies and their suppliers-encourage sharing of know-how and a search for "win-win' approaches that produce mutual gain. Constraints on competing at worker or supplier expense-job security, contractual wage

[1] *Worker Training: Competing in the New International Economy* (Washington, DC: U.S. Office of Technology Assessment, September 1990).

setting, customs or contracts specifying the distribution of benefits from productivity improvement—help build trust and assure workers and suppliers that sharing knowledge will benefit rather than hurt them.

An Example: Unions and Competition in the Auto Industry

The dynamics of competition in the U.S. auto industry illustrate the synergistic effects of institutions in promoting skill-intensive strategies. By the early 1980s, the Big Three U.S. producers recognized that they needed to fundamentally transform their operations to meet competition from Japanese imports. The United Auto Workers (UAW accepted the need to moderate wage increases and reorganize production to reduce costs and improve quality (ch. 7). During this ongoing transformation, the presence of a union gave workers a voice in how reorganization would take place and the union contract guaranteed that they would benefit from improvements in competitiveness through greater job security and profit sharing. The automakers and the UAW also negotiated major new human resource development programs to ensure that workers had the problem-solving, technical, and interpersonal skills necessary to implement new production methods. Base wages increased little in real terms, but the union prevented a competitive response based on lower wages. The combination of human resource development, worker voice, and constraints on low-wage strategies contributed to annual increases in labor productivity averaging more than 5 percent in U.S. assembly plants. Real value-added per worker rose at over 10 percent per year from 1984 to 1988.[2]

Among independent parts suppliers, by contrast, unions now represent less than one-third of workers and have little influence on wage setting. As a result, employers were free to try to remain competitive by cutting pay. By 1989, wages in independent parts plants had fallen below the all-manufacturing average and were only 60 percent of Big Three levels--compared to 78 percent in the mid- 1970s. Able to lower wages, suppliers had little incentive to invest in skill development and work reorganization. Labor productivity from 1978 to 1988 in independent parts plants rose by only 2.4 percent annually and value-added per worker hour increased less than 1 percent per year.

[2] Productivity figures in this box provided by David Campbell, based on Department of Commerce tire.

and socially sustainable. Institutions can do this in three mutually reinforcing ways (corresponding roughly to the three categories of domestic options in table 2-l):

- By creating incentives for employers and workers to invest in skills and technology.
- Through constraints on pursuit of low-wage, low-productivity strategies. Examples include minimum wages and industry-wide collective bargaining.
- By fostering worker participation, cooperation among **firms, and consultation and consensus-building** between government and the private sector. In the United States, with its tradition of adversarial labor-management relations, promoting worker participation is the greatest challenge, and the one on which OTA's policy options focus.

The three sets of institutional structures reinforce one another. Companies cannot improve their productivity and competitiveness without the proper tools. Efforts to promote human resource-intensive strategies will have limited success if firms can easily pursue low-wage strategies. The design and functioning of institutions that enable and encourage firms to pursue dynamic strategies depend on consultation and negotiation among all affected parties. In the United States, the spotlight turned on education and training by Congress, the administration, and the private sector has led to greater awareness of the importance of nonmarket institutions for economic performance. So has the new focus on government as a "catalyst" for private-sector institution building following the deregulatory thrust of recent years.

Business, labor, and government increasingly agree that the United States invests too little in worker training.[1] The reason is the U.S. "institutional deficit' '—the absence of mechanisms for multiemployer cooperation, strong unions, and tra-

[1] William B. Johnston and Arnold H. Packer, *Workforce 2000: Work and Workersfor the 21st Century* (Indianapolis, IN: The Hudson Institute, June 1987); *Work-Based Learning: Training America's Workers* (Washington, DC: Department of Labor, 1989); *Worker Training: Competing in the New International Economy* (Washington, DC: Office of Technology Assessment, September 1990); *America's Choice: High Skills or Low Wages!* (Rochester, NY: National Center on Education and the Economy, 1990); *Rebuilding Americans Workforce: Business Strategies to Close the Competitive Gap* (Homewood, IL: National Alliance of Business, 1992).

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ditions of job security that lead to greater investments in skill development and technological competence in countries like Germany and Japan. Both Congress and the Department of Labor (DOL) have been considering measures for reducing the Nation's institutional deficit in skills development. The possible impact of a NAFTA on less-educated U.S. workers underlines the importance of such policies. Rather than government intervening to draw up blueprints for training, or to provide training directly, the institutional perspective suggests that the best role for government is to set conditions under which those who would benefit will take action on their own. OTA's policy options in Issue Area A, table 2-2—and throughout this chapter—focus on ways in which government can stimulate and catalyze change, rather than directly regulate.

Better **training** by itself would not be enough to push the U.S. economy toward a more dynamic growth path. That would require more fundamental change in government policies and in business strategies and structures. Without effective constraints on wage-based competition and more extensive worker voice institutions (Issue areas B and C, tables 2-3 and 2-4), U.S. firms could respond to competitive pressures by abandoning high-end markets in favor of standardized goods that can be produced by less skilled workers. This would put the United States in direct competition with Mexico and other developing countries in which vast numbers of people are willing to work for a small fraction of U.S. wages. Thus, policies that operate on the demand side of the labor market to change the types of workers that employers seek are a necessary complement to training (the supply side). Without these complementary policies, the United States could find itself moving from a past of jobs without training to a future of training without jobs.

Discussion and debate over competitiveness, jobs, and NAFTA gravitates naturally to manufacturing. Because few service products trade internationally, few service workers compete directly for jobs against workers in other countries. But productivity in the services is just as important for U.S. living standards as productivity in manufacturing—indeed, more so, given that service industries employ over 70 percent of the workforce. Many jobs in the services pay low wages and offer little job security or opportunity for advancement. The only way to create enough high-wage jobs in the United States is to improve productivity in the service sector. Box 2-B suggests some ways in which this might be accomplished.

A word on the scope of OTA's policy alternatives. As table 2-1 suggests, the options analyzed in this chapter range well beyond the usual confines of the NAFTA debate. Some of the policy options discussed in this chapter might be considered in the time frame of a NAFTA vote. Others almost certainly could not. But economic integration between Mexico and the United States will continue regardless of NAFTA. And regardless of the outcomes of the congressional vote, it is possible to pursue a subset of options that lays groundwork for the future. Such a subset might include:

1. principles for guiding domestic and continental policy choices as economic integration proceeds;
2. near-term measures for beginning the construction of a high-wage domestic and continental economy; and
3. study, reporting, and institution-building to sustain debate after the vote, when the spotlight on NAFTA itself has dimmed.

Table 1-2, in chapter 1, included one such subset of policy options.

Regarding the costs of OTA's policy options, there is no avoiding the fact that some would be expensive. At the same time, money for new policies and programs can come from old policies and programs. Many of those old policies and programs have the effect of subsidizing low-wage strategies. They are residues of the mass production era, now past, in which the U.S. economy was more isolated from the rest of the world. Today, Federal funds also go in large amounts to remedial programs for disadvantaged workers that often fail to help them out of the trap of poverty, dead-end jobs, and welfare. Broader and deeper human resource development, coupled with opportunities for good jobs and advancement, should prove less costly over the long run. Finally, many of the "institution-building" options would cost very little, because these policies aim to create incentives for private sector action.

Box 2-B—A High-Wage, High-Productivity Service Sector

The service sector includes industries as diverse as retail trade and government, banking and health care, education and temporary help. Large, bureaucratic organizations dominate some service industries. In others, small, specialized firms are the norm. Some service jobs are among the highest paying, most skilled, and most secure in the U.S. economy. Others are classic dead-end jobs.

The examples below suggest two possibilities for improving productivity and quality in service industries. The first resembles the approach common in manufacturing: new technology coupled with human resource development and broader job definitions, so fewer workers can accomplish more and do it better. The second targets workers in unstable jobs in small firms. Such firms have little incentive to invest in human resources because turnover is high. Here, multiemployer institutions could take responsibility for upgrading human resources and for matching workers and job openings as small employers grow, shrink open, and close.

In both large and small service firms, the transition to high-productivity work organization should be easier than in manufacturing. Although much service work is organized according to "scientific management" principles-low-skill workers in narrowly defined jobs under close supervision (bank tellers, fast food workers)--this approach is not as deeply institutionalized as in manufacturing. More important, many service jobs call on low-level workers to perform varied tasks in direct contact with customers (selecting merchandise, approving credit, offering instruction)--work that is incompatible with scientific management.

Human Resource Development and Broad Job Definitions in Large Organizations

Example 1: Hotel Services-The productivity of German hotel workers is substantially higher than that of their British counterparts.[1] While the difference is partly attributable to the greater use of labor-saving equipment in Germany, it is due mostly to differences in worker training and job definitions. Most German hotel workers have completed an apprenticeship. Apprentices are trained in all major aspects of hotel operation and must pass a uniform nationwide examination. In Britain, hotel workers are less likely to have relevant training. If they have had training, it is less comprehensive than that provided in German apprenticeships. German hotel jobs are also defined more broadly than those in Britain. For example, a hotel receptionist in Germany will make reservations, book guests into rooms, provide advice and information, carry luggage, operate the switchboard, supervise room-cleaning, handle accounts and payments, and in some cases prepare breakfast; in Britain, different employees perform each of these tasks (except in small hotels).

Example 2: Clerical Work—Many U.S. firms have been disappointed with the failure of computer technology to measurably improve the productivity of clerical workers. Careful study in the insurance industry suggests that this is a consequence of traditional forms of work organization that companies have retained even as they invested heavily in computers.[2] Many large insurance companies have created computer software to automate preparation of the standardized policies sold to most of their customers. These software packages require large numbers of low-skilled clerical workers to collect and enter data from customers into the system. The jobs of these clerical workers offer little or no opportunity for skill improvement or on-the-job advancement. These companies have to employ a small number of highly skilled workers to evaluate risk and price specialized insurance policies that cannot be handled by the automated system.

This is not the only way to organize the "production' of insurance. One company employs two kinds of skilled clerical workers--customer service representatives who sell insurance and respond to customer questions and complaints, and claims representatives, who process nonroutine as well as routine claims. Both jobs begin with 5 weeks of classroom training followed by 3 to 6 months of on-the-job training; thereafter, workers may take additional training courses at company expense to qualify for more responsible positions. In 1984, 4 years after instituting this approach, the 2,300 workers in the firm's main office handled a greater volume of business than 5,000 workers at the previous sales peak.

[1] A sample of German hotels averaged 4.01 guest-nights per employee, compared to 2.06 in Britain. SJ. Prais, Valerie Jarvis, and Karin Wagner, "Productivity and Vocational Skills in Services in Britain and Germany: Hotels," *National Institute Economic Review,* November 1989, pp. 52-72.

[2] Eileen Appelbaum and Peter Albin, "ComputerRationalization and the Transformation of Work Lessons from the Insurance Industry," *The Transformation of Work?* Stephen Wood, ed. (London: Unwin Hyman, 1989), pp. 247-265.

(Continued on next page)

Box 2-B—A High-Wage, High-Productivity Service Sector-(Continued)

In the U.S. economy as a whole, many clerical occupations are dead-end jobs. They need not be. Clerical work spans an enormous range of skills, from those of receptionist, to bookkeeping, mastering word processing and spread sheet software, desk-top publishing, and making travel arrangements. The gaps between steps on the office job ladder could be bridged by most employees with a modest amount of structured training and experience. To grasp the potential benefits, imagine what it would be like to routinely call any large organization (a bank, insurance company, department store, or government agency) confident that the person at the other end of the phone would be both competent and courteous.

Unstable Jobs, Small Firms, and Multiemployer Institutions

The contrast between low-wage and high-productivity strategies is unusually stark among small service employers with high turnover. Low-wage employers deskill jobs and use the spot market or temporary help agencies to fill gaps and find replacement workers. The unionized construction industry suggests an alternative. Like many people in the service sector, construction workers have little job security or employer-specific know-how, and move frequently from job to job. Yet this does not prevent unionized construction workers from achieving high productivity, high wages, and a degree of employment security?

Construction trade unions, in cooperation with associations of unionized construction firms, facilitate higher productivity by creating institutions that provide workers with training and promote their mobility across firms. Unionized construction workers must complete multiyear apprenticeships which are administered jointly by unions and employers. While no single employer would be willing to train workers who are so mobile, construction unions negotiate agreements that require all firms that employ workers in a particular trade in a local area to pay for training. In addition, construction trade unions maintain hiring halls that refer workers to available jobs in the local area. Collective bargaining agreements often require employers to contact the union when seeking workers and to give preference to workers referred by the union. Union hiring halls provide workers with a degree of employment security and reduce the cost to employers of locating skilled workers. Finally, construction trade unions negotiate portable employee benefit packages to which all unionized employers in an area contribute.

The apprenticeships, hiring halls, and portable employee benefits found in the unionized construction industry could be models for service industries characterized by small employers and high turnover. Similar arrangements have existed in the past for occupations including waitress.[4] Unions and employer associations, independently or jointly, could also create well-marked pathways for occupational advancement that would encourage workers to improve their capabilities. For example, multiemployer agreements could provide that workers were paid according to their level of knowledge or skill. Among other benefits, this would make it easier for skilled workers to move between small and large service sector fins.

[3] Value added per employee has been estimated at 44 to *52* percent higher (undefeated) or 17 to 22 percent higher (deflated) fOr unionized construction workers compared with their nonunion counterparts. Dale Belman, "Unions, the Quality of Labor Relations, and Firm Performance," *Unions and Economic Competitiveness,* Lawrence Mishel and Paula Voos, eds. (Armonk, NY: M.E. Sharpe, 1992), pp. 41-107.

[4] Dorothy Sue Cobble, "Organizing the Postindustrial Workforce: Lessons from the History of Waitress Unionism," *Industrial and Labor Relations Review, vol. 44,* 1991, p. 419.

DOMESTIC OPTIONS

Issue Area A: Promoting a Productive Economy (table 2-2)

Today, the U.S. labor market adjustment system reflects both a decade of retrenchment and the origins of this system as a way of providing income support for semiskilled workers on temporary layoff. The U.S. Government spends far less than European countries and Canada on adjustment. Most of this money is spent on income maintenance rather than invested in human resource development (see ch. 5, table 5-3). The United States also has fewer programs than Japan and Europe directed at keeping small firms technologically and organizationally up to date. A productive future for the United States calls for institutions adapted to the 1990s, not the 1930s.

Option 1: Approve a Modified Version of the **High Skills, Competitive Workforce Act of** 1990

Table 2-2—issue Area A: Promoting a Productive Economy

Options	Advantages	Disadvantages
1. Approve a modified version of the High Skiils, Competitive Workforce Act of 1990 (S. 1790/H.R. 3470).	Encourages training and work reorganization.	Would not immediately compensate workers dislocated by a NAFTA.
1a. Foster certification of occupational skiils by establishing uniform standards, as called for in S. 1790/ H.R. 3470.	Standardized curricula would improve worker mobility and ensure employers of qualifications.	Standardization could eliminate some currently effective local or firm-specific training programs. Businesses might push for narrow occupational definitions.
1 b. Implement a modified version of the levy in S. 1790/H.R. 3470, requiring employers to spend an amount equal to at least 1 percent of payroll on training or else contribute this amount to a trust fund.	Levy generates revenues for workforce development without adding to federal spending. Trained workers need less adjustment assistance if laid off.	May be difficult to identify best uses of training trust funds. Levy-fundedtraining might meet the needs of large and influential employers to the disadvantage of other firms.
1 c. Encourage creation of State and local Employment and Training Boards (ETBs) to coordinate training programs and match workers with job vacancies, as called for in S. 1790/H.R. 3470.	ETBs could help employers find qualified workers or train them if necessary. Reduces costs of unemployment insurance and welfare by matching workers to available jobs.	If not carefully managed, might result in cutbacks or elimination of local employment and training programs for the disadvantaged.
2. Establish a comprehensive worker adjustment system by providing quicker response and long-term income support through the Economic Dislocation and Worker Adjustment Assistance program (EDWAA) and enhanced unemployment insurance coverage and benefits.	Provides more displaced workers with services and income cushion during job search. Puts them back to work with better skills.	EDWAA enhancement could cost several billion dollars annually. Job placement could be a bottleneck. Higher UI payroll taxes needed. Some people might take advantage of increased benefits to avoid working.
3. Expand the Trade Adjustment Assistance program (TAA).	Expanded TAA coverage would provide many NAHA-displaced workers with comprehensive assistance.	Would not cover many workers affected indirectly. Decisions on eligibility would inevitably be somewhat arbitrary.
4. Award nationally recognized “Certificates of initial Mastery” to encourage young people to improve their basic skills.	Basic skills provide foundation for continuing learning. Certification would encourage employers to provide further training.	Could lead to expensive, bureaucratic testing process without significantly improving school-to-work transition.
5. Broaden and deepen linkages among firms, in both manufacturing and services.	Encourages dynamic industrial networks that can create jobs and help boost productivity and competitiveness,	
5a. Support a national network of business modernization centers, servicing smaller firms.	Would help upgrade basic competence of smaller firms.	Some firms or sectors might “capture” the centers to the disadvantage of others.
5b. Catalyze formation of muiti-employer horizontal industrial networks.	Encourages cooperation among firms tot heir mutual benefit. Helps insulate United States from competition with low-wage countries.	Cooperation may lead to collusion.
6. Create a Regional and Community Adjustment Corporation to respond to temporary dislocations and chronic unemployment through economic redevelopment emphasizing direct job creation.	Provides alternatives to low-skill, low-wage work. Enhances productivity through improvements in infrastructure and public services. Could provide training certification, and stepping stones to good private-sector jobs.	Initial costs high (although partiaily offset by reduced welfare spending and provision of needed services). Transition to private-sector jobs could be slow.

SOURCE: Office of Technology Assessment, 1992, Three provisions of this proposed legislation (S. 1790 and H.R. 3470) could raise U.S. human resource investments and productivity growth:

1. certification of occupational skills;
2. requiring all firms with at least 20 employees to spend 1 percent of their payroll on training or pay the equivalent into a State training trust fund; and
3. encouraging creation of State and local Employment and Training Boards (ETBs).

la: Certify Occupational Skills-Standardized occupational credentials can bean important tool for encouraging industry to define jobs broadly, for providing lower level workers with deeper training, and for making ''nonprofessional' occupations more attractive. In Germany, young people who complete a 3- to 4-year apprenticeship and pass a test gain certification in one of some 450 nationally recognized occupations. Curricula and tests are nearly uniform across the country, encouraging small firms to share the costs of training through local business associations. Young people enter apprenticeship programs because they will earn a widely recognized credential. Skill certification helps foster career ladders within and across companies, providing workers with upward mobility and further enhancing commitment. The broad skills and worker motivation that result from its skill certification system give Germany a productive and flexible economy (see the hotel example in box 2-B).*

Recognizing the potential benefits of skill certification, the Departments of Education and Labor held a series of regional hearings in April and May of 1992 to explore the establishment of standards. Although an important first step, DOL's Office of Work-Based Learning, which organized these hearings, lacks both statutory authority and a secure funding base. More important, the process begun by the hearings could lead toad hoc cooperation within particular industries, occupations, or regions rather than a comprehensive national system. This would place limits on geographical and intersectoral mobility and lead to variations in the quality of certification. A decentralized process might also leave out workers themselves. Combined with a focus on particular sectors, the result could be definition of narrow, "industry-specific " skills rather than broader occupations that would contribute more to the flexibility of the economy and to worker opportunity. To avoid this danger, S. 1790/H.R. 3470 would create and fund a National Board for Professional and Technical Standards, made up of representatives from business, labor, and government. The board would develop uniform curricula and certification tests.

lb: Training Levy-As written, S. 1790/H.R. 3470, while they call for firms to "train or pay," place no restrictions on the type of training that would qualify. Flying executives to sessions in Hawaii could suffice. Congress may want to modify the bill's language to emphasize training of front-line workers, recognized as a priority in the bill's criteria for distributing funds raised by the levy. Congress could also direct firms that wished to be exempt from the levy to prepare annual workforce development plans '' in conjunction with employee representatives showing, for example, the ways in which training would provide lower level workers, over time, with certifiable skills and internal opportunities for advancement. These plans might be reviewed by State-level Employment and Training Boards, which would distribute funds collected by the levy to qualifying programs.

1c: Employment and Training Boards--Section 601 of S. 1790/H.R. 3470 authorizes $50 million for grants to States to develop coordinated systems for administration of Federal, State, and local employment and training programs. A network of State and local Employment and Training Boards (ETBs) could provide the backbone for such a system. Similar to Canada's recently constituted Labor Force Development Boards, ETBs could be composed of representatives of employers, labor, government, educational institutions, and disadvantaged workers.[3] ETBs could:

2 Studies of matched German and British metalworking, furniture-making, and apparel plants likewise demonstrate that both productivity and product quality are higher because of Germany's training system. *Worker Training,* ibid., p. 88.

3 This option differs from the administration's ''Jobs 2000" proposal, which calls for oversight by currently existing Private Industry Councils (PICs). PICs lack adequate worker representation, reducing pressure to create apprenticeships or other long-term credentialed training that is most important to U.S. productivity growth and worker opportunity. Many PICs lack broad-based business representation as well, leading to domination by a few employers who sometimes use funds as subsidies for "mining" carwash attendants or hotel maids. *See Job Training Partnership Act: Inadequate Oversight Leaves Program Vulnerable to Waste, Abuse, and Mismanagement,* GAO/HRD-91-97 *(Washington* DC: U.S. General Accounting Office, July 1991).

- Help streamline the array of around 45 Federal education, employment, and training programs that currently spend about $17 billion per year.[4]
- Coordinate the growing number of State training programs aimed at employed workers.
- Help catalyze the creation of training consortia in which firms share the costs and benefits of training.
- With strong linkages to local labor markets, ETBs could--directly and through new industry and occupational training institutions that grew from them-take over the functions of the existing Federal-State Employment Service (ES). At present, the ES is peripheral to the operation of most local labor markets-its offices typically place fewer than 20 percent of job-seekers in permanent jobs, and those jobs pay only half the average wage in the community.
- To complement a role in job placement, ETBs could provide interest and 'aptitude testing, comprehensive job counseling, and training to unemployed well as to employed workers.

Option 2: Enhance EDWAA and UI—A Comprehensive Displaced Worker System

Option 1 would establish a flexible U.S. training and adjustment system intended to shorten spells of unemployment and increase employer investment in human resource development. It does not directly address the problems of workers who lose their jobs, as a result of trade with Mexico or for other reasons. At present, the United States has three major programs that serve displaced workers. The Economic Dislocation and Worker Adjustment Assistance program (EDWAA), available to all displaced workers, provides occupational counseling, job search assistance, training, and some needs-related income support for workers in training. When possible—for example, upon 60-day advanced notification of plant closing or mass layoff under the 1988 Worker Adjustment and Retraining Notification Act (WARN)--EDWAA provides comprehensive onsite ''rapid response' services to workers who are about to be laid off. The second program, Trade Adjustment Assistance (TAA), provides eligible trade-displaced workers with funding for all ''reasonable training expenditures and income support for up to 78 weeks when combined with Unemployment Insurance (UI) benefits. The third program, UI itself, complements TAA and EDWAA by providing some displaced workers with income maintenance. UI only serves about 50 percent of displaced workers (and around 40 percent of all unemployed workers). Many of these people exhaust their benefits before finding a job. For recipients, weekly UI benefits in 1990 averaged $161, 37 percent of previous earnings.[5]

Each of the three major elements of the U.S. worker adjustment system has its limitations. Despite EDWAA's stated goal of ''rapid response, ' administration is highly uneven across States and localities.[6] Some local areas do not enroll workers until 3 to 6 months after layoff.[7] Because EDWAA provides only limited funds for income support, and UI generally runs out at 26 weeks, EDWAA training typically lasts no more than 12 to 16 weeks, often less.[8] While TAA offers longer term training and income support, it covers few workers-only 25,000 in 1991, less than 1 percent of the 2.7 million workers who were unemployed for 6 months or more.[9] A second problem results from the need for certification of eligibility before services can be delivered: while this process has been streamlined

4 This total includes 21 Department of Education programs funded at $11.1 billion (including $4.4 billion in Pen Grants and $3.5 billion in student loans) and 9 DOL programs (primarily under the Job Training Partnership Act) funded at $3.8 billion. *Training Programs: Information on Fiscal Years 1989 and 1990 Appropriations* (Washington, DC: U.S. General Accounting Office, 1989).

5 William J. Cunningham, AFL-CIO, Statement before the Senate Finance Committee on Unemployment Insurance Problems, Apr. 23, 1991.

6 *After the Cold War: Living With Lower Defense Spending,* (Washington DC: Office of Technology Assessment, February 1992), p. 77.

7 ''Study of the Implementation of the Economic Dislocation and Worker Adjustment Assistance Act Phase II Findings,'' Social Policy Research Associates and Berkeley Planning Associates, May 1992, p. 8. On the importance of rapid service delivery for helping displaced workers find new jobs quickly, see *Technology* and *Structural Unemployment: Reemploying Displaced Adults (Washington, DC: Office of Technology Assessment, February, 1986).*

8 *After the Cold War,* op. cit., footnote 6, p. 85.

9 Sheldon Friedman, ''lkrms of Adjustment: It's No Cure for a Bad Trade Pact, But Victimized Workers Need Aid, " *Northeast-Midwest Economic Review,* August 1992, p. 8. One reason is that TAA covers only workers who lost their jobs as a direct result of import competition. In the 1988 trade act, Congress extended eligibility to workers in supplier and service firms who were indirectly affected by imports, but no money has been available for benefits. TAA has never covered workers who lose their jobs when plants close and production moves abroad.

somewhat, it still impedes rapid response.[10] The low coverage in the third program, UI, prevents it from compensating for the limits of EDWAA income support.

Initially, the administration took the view that EDWAA was adequate for aiding NAFTA-dislocated workers.[11] In June 1992, however, DOL acknowledged that neither TAA nor EDWAA would be sufficient to deal with NAFTA dislocations, and that a new NAFTA-specific adjustment program might be needed.[12] Then, in August, the president proposed increasing EDWAA funds to provide long-term training and income support for what would be a small fraction of displaced workers (including some of those displaced by NAFTA). A NAFTA-specific adjustment program, in any case, might be ineffective because of slow delivery of services as a result of the time required to certify workers as NAFTA-displaced. On equity grounds, a NAFTA-specific program would be a further example of making services a function of the cause of worker displacement. The many indirect impacts of trade with (and immigration from) Mexico would make defining who was NAFTA-displaced especially tricky. Should suppliers to factories that lose business to imports be covered? What about workers displaced (at least proximately) because investment moves south rather than trade moving north? Or workers who lose jobs because Mexican farmers or manufacturing workers are displaced and then migrate to take jobs in the United States?

Most fundamentally, the impacts of NAFTA displacement will be transmitted quite rapidly through the U.S. labor market as a whole. The U.S. labor market for less educated workers increasingly resembles a spot market in which the impacts of displacement are immediately felt by all similarly skilled workers (because of declining union coverage, the breakdown of internal labor markets, and the falling real minimum wage). As a result, **the basic NAFTA adjustment issue is what an agreement will do to job opportunities for the entire bottom half of the U.S. labor market. Any** improvement in domestic adjustment programs to cope with NAFTA pressures, therefore, should serve all workers. Any such improvement would be more likely to function effectively in combination with other options designed to change the structure of the lower end of the U.S. labor market. Without such complementary changes, even long-term training may yield meager returns.

OTA's review of existing U.S. adjustment programs suggests that a more effective system would combine (and improve on) the rapid response of the EDWAA program while providing long-term income support to workers as in the TAA program. This could be achieved through a combination of the following mechanisms:

- Increase funding for EDWAA (budgeted at $527 million in 1991) so that, in combination with other measures, workers can obtain income support and training funds for longer periods-preferably up to 18 months as in TAA. If EDWAA enrollment tripled and the share of workers receiving long-term training grew to 50 percent as a result of the availability of income support, these changes would cost at most $2.4 billion.[13] This is a small fraction of the over $30 billion cost of displacement to manufacturing workers in the 1983 to 1989 period. (See ch. 4.) It is likely to be a small fraction of the cost of displacement due to NAFTA. Funding for an expanded program could come from general revenues, a payroll tax, or from earmarking tariff revenues. (See Option 3 below.)
- To cushion the impact of displacement and reduce the need for post-UI income maintenance from an expanded EDWAA program, Congress could bolster the UI system in several ways. It could raise average UI benefits to the level recommended by the National Commis-

10 WARN's 60-day plant closing and mass layoff notification provisions have increased the number of workers for whom certification is requested before displacement. In addition, DOL has shortened the time between certification application and determination of eligibility. Still, even workers in large plants that received advanced notice are usually not ruled eligible for TAA until roughly a month after layoff. Personal communication with Walter Corson, Mathematical inc., August 1992. Training follows still later.

11 Benét Wilson, "Use Best of TAA, EDWAA to Help Victims of Trade pact, Officials Say," *Employment and Training Reporter,* Aug. 7, 1991, pp. 983-985.

12 "Administration Begins Considering Worker Adjustment Program for NAFTA," ***Inside U.S. Trade,*** June 26, 1992, p. 1.

13 EDWAA enrolled 187,000 workers in fiscal 1991-roughly 15 percent of all displaced workers. Only about 20 to 30 percent of EDWAA participants enter long-term mining. The $2.4 billion estimate assumes that long-term training lasts 18 months on average, with the first 6 months supported by UI and the last 12 months supported by making income maintenance generally available through EDWAA.

sion on Unemployment Insurance-50 percent of lost wages. It could use the total unemployment rate rather than the much lower insured unemployment rate to trigger the extension of benefits beyond the basic 26 weeks. To pay for greater coverage, the Federal Government could raise the wage base used to assess UI taxes—which currently ranges from $7,000 in some States to over $14,000 in a few—and the tax rates themselves. Increasing the money in State unemployment funds would reduce pressure to tighten eligibility and help increase the fraction of workers covered.

- Congress could direct DOL to provide financial incentives for State EDWAA programs that respond rapidly. Disbursement of a portion of available funds, for example, could be made dependent on average time lapse between notice of layoff and provision of key services.

A number of additional changes might further improve a comprehensive displacement system. Since income maintenance at UI levels (even if raised to 50 percent) would often be insufficient to meet workers' needs (e.g., mortgages) and enable them to enter extended training, a loan system could be established that lends workers funds to bring them up to, say, 70 percent of their previous wage (the maximum wage replacement level under the TAA program before 1981). Such loans might also be available for expensive training that is not fully covered by an expanded EDWAA.[14] A well designed revolving fund might not need new Federal funds if loans were balanced against repayments. TAA could also be amended to provide dislocated workers with health care-the average premium for medical insurance available to workers is $3,200 per year, nearly 40 percent of the average unemployment benefit.[15] As a result, lack of medical insurance often prevents workers from enrolling in long-term training and forces them to take jobs with little opportunity for upward mobility.

The structure of a comprehensive system might differ from the existing EDWAA model by having the ETBs, once set up, replace Private Industry Councils (PICs) in linking EDWAA training and job search programs with local labor market needs and opportunities. With ETBs helping seed new, multiemployer training programs and serving as labor-market intermediaries, their participation in a comprehensive displacement service would help channel displaced workers in directions that offer real income and career opportunities.

Option 3: Enhance TAA

If Congress does not enact a comprehensive adjustment program, it could, at a minimum, compensate the workers most immediately affected by trade liberalization with Mexico. Unlike the option above, this would not be the kind of systemic change that pushes the United States towards a high-productivity development path. Nor would it protect workers in sectors not directly exposed to trade competition who would be hurt by competition for jobs with those more directly affected.

One way to compensate NAFTA-affected workers would be to bolster the TAA program as a whole. To reduce the time required for certification, to limit the scope for administrative discretion that prevents workers from obtaining benefits, and to increase the number of workers served industrywide and area-wide certification could be considered as a complement to firm- and plant-level certification. Medical insurance could be incorporated within an expanded TAA program (see above). A trust fund financed by existing tariffs would provide one source of funds for expanding TAA. (A new import fee, as called for in the 1988 trade act, could be seen as a trade barrier.) Congress called for the creation of such a trust fund in 1974 as well as 1988, but DOL has not acted on these directives.

Option 4: Certify Basic Skills

To prepare for work in high-productivity firms, new labor market entrants need basic skills in reading, writing, and arithmetic, as well as the ability to work in groups, solve problems, and communicate effectively. The Commission on the Skills of the American Workforce recommended that all 16-year-olds who passed a test on such skills be awarded a "Certificate of Initial Mastery." A nationally recognized credential would help those choosing to enter the labor market after high school and encourage

14 Early in 1992, President Bush proposed that all workers be provided a credit card providing them training loans. Frank Swoboda, "Bush to Propose Sweeping Changes in Job Training,' *Washington Post*, Jan. 17, 1992, p. B1. Loan repayments could be based on future earnings, much like the pilot program in the recently enacted Higher Education Act (S. 1150).

15 Sheldon Friedman, "Tkxrns of Adjustment, ' Op Cit., footnote 9

their employers to provide further training, knowing it would build on a good foundation.

Option 5: **Promote Business Modernization Among Small and Medium-Sized Manufacturers and Service Firms**

The active labor market policies discussed above focus on workers. To achieve the productivity levels necessary to maintain its living standards, the United States also needs to promote the dynamism of its employers. Such efforts should focus on small and medium-sized enterprises (SMEs), which have fewer resources than large firms and less experience to draw on. Because small companies are less likely to move production abroad, the United States is likely to capture the benefits of support provided to them. Furthermore, SMEs as a class and the service sector as a whole have become a drag on U.S. productivity growth and the competitiveness of large U.S. firms.[16] Because low-wage countries, including Mexico, often have limited technological and human resource endowments—and low productivity beyond the plants of large multinationals-high-performing small firms could pay a pivotal role in slowing the flight of investment and jobs out of the United States. At present, operating as isolated establishments, using outdated technology and organizational practices, they often fail to play this role.

Our foreign competitors foster dynamic small and medium-sized manufacturers in two complementary ways. The first is through industrial extension services that provide firms with assistance on basic organizational and technological matters. Japan, for example, supports a national system of 185 technology extension centers that provide R&D services and technical assistance, testing, training, and advice to manufacturing companies with up to 300 employees.[17] Denmark has established business and government-funded technology service centers in each of its counties. The second approach involves employer-led cooperation to create either of two types of industrial networks. Vertical networks bring suppliers that sell to large companies into associations that facilitate cooperation among their members (e.g., Japanese *keiretsu).* Horizontal networks of mutually dependent small firms pool resources to share overhead costs (e.g., on marketing overseas) and subcontract to each other to fill orders beyond the capacity of individual firms. In northern Italy, for example, networks of cooperating small firms employ advanced technologies and highly skilled workers to produce a wide variety of high quality goods matched to customer needs.[18] In Denmark, the government spent $25 million-equivalent to about $1 billion if scaled to the size of the U.S. economy—to seed the development of industrial networks.[19] By 1991, in a program started 2 years earlier, one in four Danish firms had links to at least one network.

In the context of international competition, declining manufacturing employment, and successful experiences in other countries, the United States has, over the past decade, expanded its efforts to assist small manufacturers. By 1991, 23 States had established industrial extension programs. Five States now share the cost of Manufacturing Technology Centers (MTCs) with the Commerce Department.[20] After installing automated equipment developed in conjunction with the Great Lakes Manufacturing Technology Center (MTC), co-funded by the State of Ohio, an innercity Cleveland plant making connectors for car radio antennas increased its market share and maintained its employment levels. The company had originally planned to relocate this work to Mexico in order to meet demands by General Motors for lower costs,

16 Since the early 1970s, value added per employee in plants with fewer than 500 employees has been growing at only two-thirds the rate in linger plants. Louis G. Tornatzky and Daniel Luria, "Technology Policies and Programmes in Manufacturing: Toward Coherence and Impact," *International Journal of Technology Management*, special issue on strengthening corporate and national competitiveness through technology, vol. 7, 1992, pp. 141-157. Low productivity in producer services, health care, and education also hurts the competitiveness of U.S. manufacturers.

17 *Competing* Economies: America, *Europe, and the Pacific Rim* (Washington DC: Office of Technology Assessment, October 1991), p. 48; Philip Shapira, "Lessons from Japan: Helping Small Manufacturers," *Issues* in *Science and Technology, spring 1992,* pp. 66-72.

18 Michael J. Piore and Charles Sabel, The Second *Industrial Divide (New* York, NY: Basic Books, 1984). For more examples and an analytical comparison of horizontal and vertical networks see Michael Best, *The New Competition: Institutions of Industrial Restructuring* (Cambridge, MA: Harvard University Press, 1990).

19 Stuart A. Rosenfeld, Technology Innovation *and Rural Development: Lessons from Italy and Denmark* (Washington DC: Aspen Institute for Humanistic Studies, December 1990); personal communication with Niels Nielsen, Danish Technological Institute, Dec. 5, 1991.

20 See *Competing Economies* op cit., footnote 17, pp. 47-48, where a similar option is discussed in more detail. Centers could, for example, help small companies acquire new technology through leasing of capital equipment. On links between technical assistance and human resource practices, see *Worker Training,* op. cit., foomote 1, pp. 60-64.

Despite these and other positive examples, U.S. industrial extension programs remain small in scale and narrow in scope. In 1990, they helped about 3 percent (1 1,800) of the 350,000 U.S. manufacturers with fewer than 500 employees.[21] In contrast to programs in other countries, industrial extension in the United States has been narrowly defined. Typically, U.S. programs focus on ''hmdware' technology and business advice while paying little attention to shopfloor organization and work methods. Not much effort has been focused on stimulating cooperation among firms themselves to create dynamic industrial districts .22 One danger of a NAFTA is that it might weaken efforts to construct dynamic industrial networks in the United States at a critical, embryonic stage by encouraging SMEs to turn their attention to Mexico. To prevent this, and to encourage modernization, a NAFTA could be complemented by two options that build on existing state and Federal efforts.

5a: A Nationwide Network of Business Modernization Centers—To provide basic assistance to all manufacturing and service employers with less than 500 workers, and to insulate current State efforts from recessionary cutbacks, the Federal Government could work with the States to expand existing industrial extension services into a network of, say, 120 centers. To provide services to perhaps 7 percent of the Nation's SMEs annually might cost about $500 million initially .23 The program could be cost-shared with the States to encourage the local ''ownership' needed for success. If the centers proved effective and gained strong support from their constituents, federal funding could be increased by redirecting funds already spent for business assistance-including, possibly, Small Business Development Centers now supported by the Small Business Administration ($55 million per year) that primarily support low-skill, minimum-wage job creation. Other programs that might be consolidated include the DoD Procurement Assistance Centers, Trade Adjustment Assistance Centers, and Economic Development Administration University Centers.

To overcome the existing emphasis on hardware technologies, the centers should provide services including assistance on work organization, training, management, and product/process design and development. Planning for human resource consulting could be coordinated with Employment and Training Boards (ETBs), should those be established (Option 1c).

5b: Catalyze the Formation of Multiemployer Horizontal Industrial Networks. SMEs, especially in dynamic industry segments (e.g., development of computer software) almost always cooperate informally in ways essential to their collective survival. In the U.S. context, the weakness of industry associations and strength of entrepreneurial individualism tend to make alliances to address cooperative concerns unstable (one reason some countries, including Germany and Mexico, require companies to aggregate into industrial chambers). Building on and learning from the experiences of State Governments and MTCs, the Federal Government might seek to help institutionalize employer-led cooperation to create dynamic, high-wage, industrial networks. One way to start would be a pilot program of perhaps $100 million to support overhead sharing by SMEs on cooperative efforts to develop and diffuse organizational and human resource knowledge. Networks could be cost-shared with States and participating employers. The Federal and State contribution could diminish over time---successful networks, in which firms come to recognize the mutual benefits of their investments, should be self-sustaining. Lessons from a successful pilot program could be used to define ways for business and government to transform existing industry associations from lobbying organizations into institutions that promote continuous industrial upgrading among smaller firms.

Option 6: Create a Regional and Community Adjustment Corporation

To reduce pressures that may lead depressed regions to accept any and all job-creating investments, Congress could create a quasi-public Regional and Community Adjustment Corporation.

21 Shapira, ''Lessons from Japan, " op. cit., footnote 17,

22 one exception is in Oregon, where the State Government helped create a consortium of wood products firms. *After the Cold War*, op. *cit.,* footnote 6, pp. 183-184. For more examples, see Gregg A. Lichtenstein, "A Catalogue of U.S. Manufacturing Networks," Gaithersburg, MD, Department of Commerce, National Institute of Standards and Technology, Apr. 20, 1992.

23 OTA earlier estimated the cows of serving 7 percent of manufacturing SMEs at $120 to $480 million annually. *Competing* Economies, op. cit., footnote 17, p. 48.

The Corporation would direct funds to poorer communities and regions, including those affected by a NAFTA. To limit pork-barrel projects, funding could be allocated based on objective factors such as per-capita income, unemployment, and economic growth rates. With oversight by a board representing business, labor, education, and State and local government, the Corporation could help localities formulate and implement comprehensive economic development programs, including direct job creation where necessary.

Public-sector jobs might be designed to rebuild the Nation's deteriorating infrastructure (which has been linked to the slowdown in U.S. productivity growth) and increase quality and productivity in public services (e.g., educational aides in classrooms, freeing teachers to spend more time with students and less on administrative tasks). Public-sector jobs could have a limited duration (say, 2 years) and be linked with reforms to the U.S. training system, so that workers have greater access to structured training, certification, and greater career mobility. If the United States and Mexico agreed to form a binational Commission on Environment and Infrastructure (as suggested below), the Regional and Community Adjustment Corporation could create jobs in construction and environmental cleanup in the border region.

Even in the short run, most of the costs of public-sector job creation would be offset by savings in welfare expenditures. One set of estimates placed the net cost of providing public jobs to all the unemployed (in 1986) willing and able to work at less than $30 billion, *before* accounting for the value created by their labor.[24] In the longer run, direct public job creation should yield other benefits too. It might reduce the social costs of unemployment, including child and spouse abuse, mental and physical illness, and crime. For example, arrest rates among youths participating in federally funded jobs programs in the late 1970s were 50 percent lower during periods of employment, resulting in savings in criminal justice costs, property losses, and personal injury estimated at more than $1,000 per participant.

Issue Area B: Curtailing Low-Productivity Strategies (table 2-3)

The options just described would encourage and assist workers, employers, and communities to move toward a high-skill, high-productivity growth trajectory. Congress may also want to make pursuit of the low-productivity alternative more difficult, through policy options such as those discussed below.

Option 1: A U.S. Social Charter

As a first step, Congress could declare its intent to curtail low-productivity, low-wage strategies in a U.S. Social Charter. The Charter might include both a list of social goals and a statement of principles on which to base future policymaking. Examples of provisions that might be considered include:

- a restatement of the longstanding U.S. goal of full employment, perhaps defined as the right to a stable job that pays above-poverty wages;
- a statement of the right to training and education throughout working life;
- reaffirmation of workers' rights to organize and bargain collectively; and
- in light of the social tensions arising from the growing gap between rich and poor, reduction of income inequality (higher incomes at the low end of the distribution also create incentives for employers to increase productivity).[25]

An annual report on progress toward achieving the goals of the U.S. Social Charter would provide an occasion for reviewing progress and updating goals.

Option 2: Discourage Low-Wage Strategies Through Wage and Tax Policies

2a: Increase the Minimum Wage—With its April 1991 increase to $4.25 per hour, the minimum wage in the United States rose to an inflation-adjusted level that was 73 percent of the 1968 peak and 80

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24 Philip Harvey, *Securing the Right to Employment: Social Welfare Policy and the Unemployed in the United States* (Princeton, NJ: Princeton University Press, 1989), p. 49. Direct expenses for job creation were estimatedas$112 billion (net of taxes generated by now-employed workers), with offsetting welfare savings placed at $83.5 billion.

25 In 1975, the top 20 percent of U.S. households had 7.4 times the income of the bottom 20 percent; in 1990, the ratio was 9.6 to 1 (based on Census Bureau data from September 1991).

Table 2-3-issue Area B: Curtailing Low-Productivity Strategies

Options	Advantages	Disadvantages
1. A U.S. Social Charter.	Helps map out a high-skill, high-productivity future.	A statement of principles and goals would have little short-term impact.
2. Discourage low-productivity strategies through wage and tax policies.	Increases worker commitment to the job.	Could raise average U.S. labor costs.
2a Raise the minimum wage and strengthen enforcement of this and other labor standards.	Encourages firms to reorganize production and upgrade their workforces to cover costs. Reduces welfare costs, helps working poor support families.	Some employers might move production to Mexico or other low-wage countries.
2b. Promote sectoral wage setting through collective bargaining and "extension laws."	Reduces low-wage competition within industry sectors.	Wage increases could be greater than warranted by productivity y improvements in some companies or plants.
2c. Narrow the difference between earnings of top executives and hourly workers.	Creates personal incentives for managers to raise the pay of lower-level workers.	Creates incentives for executive compensation packages that would skirt the rules.
3. Discourage State and local "bidding wars" to recruit new industry.	A "gentlemen's agreement" among governors and State economic development officials could stop the drain of revenues better used for other purposes.	If one State broke the agreement, others would feel compelled to follow.
3a. Reduce federal funds for community and regional economic development in proportion to incentives provided by States and localities.	Forces cities and States to make explicit choice between federal funds or incentives to attract new businesses.	
3b. Tax businesses on the value of State and local incentives.	Does not require self-discipline by States.	

SOURCE: Office of Technology Assessment, 1992.

percent of the minimum wage in 1978.[26] The falling real value of the minimum wage contributes to the increasing number of employed people living below the poverty line and decreases the attractiveness of work compared to welfare.

One alternative would be to raise the minimum wage over time (say, 3 years) to perhaps 60 percent of the average hourly nonsupervisory wage-this would have been $6.20 in 1991.27 As a complementary step, it might be desirable to strengthen DOL enforcement of the minimum wage and other fair labor standards. The number of inspectors responsible for enforcing labor standards-878 as of June 1991—has fallen to lower levels than that at any time since 1980.[28] Detected child 1abor violations of the Fair Labor Standards Act have been on the rise since 1985.

Deficiencies in the U.S. health care system also encourage U.S. firms to compete through low-wage, low-skill strategies. As discussed in box 2-C, the United States has lost high-wage, high-benefit auto industry jobs to Canada because Canada's health

26 Calculated Using the personal consumption expenditure component of the gross domestic product deflator from *Economic Report of the President* (Washington DC: U.S. Government Printing Office, 1992), p. 302. Using the Consumer Price Index as the deflator, the 1991 minimum was 68 percent of the 1968 level and 77 percent of the 1978 level.

Some economists have argued that raising the minimum wage causes employers to lay off less skilled workers, but higher wages also stimulate consumption. Recent studies provide no evidence that the 90-cent minimum wage increase between April 1990 and April 1991 led to layoffs. Lawrence F. Katz and Alan B. Krueger, "The Effect of the Minimum Wage on the Fast Food Industry, " Working Paper No. 3997, National Bureau of Economic Research, Cambridge, MA, February 1992; David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," Working Paper No. 4058, Nationat Bureau of Economic Research, Cambridge, MA, April 1992,

27 In 1991, the *minimum wage stood at* 40 percent of average manufacturing wages, excluding overtime, compared with 56 percent in 1968. Based on hourly wages reported in *Employment and Earnings,* January 1992.

28 "Labor's Child Labor Enforcement Efforts: Developments After Operation Childwatch, Statement of Sarah F. Jagger, Director for Operations, Human Resources Division [U.S. General Accounting Office], Before the Subcommittee on Employment and Housing, Committee on Government Operations, House of Representatives, Redwood City, CA, Aug. 7, 1991," GAO/T-HRD-91-44, pp. 8-9.

Box 2-C—Health Care Costs

Decades of Federal support for biomedical research have given the United States unmatched health care technology, but at prices that have caused growing concern. The Nation now spends 11.2 percent of its gross national product (GNP) on health care, more than any other country. Canada spends 8.6 percent of GNP on health care; Germany, 8.2 percent; Japan, 6.8 percent; and Mexico, 1.7 percent. Spending the most has not given the United States the best health, at least as measured by such indicators as life expectancy at birth (where the United States ties with Israel for fifteenth place), mortality rate (eleventh, tied with Australia), or infant mortality (tied with several nations for thirteenth place).[1]

High health-care costs affect U.S. competitiveness in several ways. First, they increase the cost of U.S. products relative to those made in other countries. As pointed out in chapter 7, health care costs for U.S. automakers exceed those in Germany and Japan by two to three times, adding several hundred dollars to the cost of a car made here. Within the United States, the health care system reduces the cost competitiveness of the Big Three U.S. automakers relative to 'transplants' because the latter can hire a young workforce and be assured of substantially lower health insurance costs. Finally, the current system favors low-wage, low-benefit jobs within the United States, and movement of high wage jobs outside the country, as illustrated by shifts in production within the integrated U.S. and Canadian auto industry. Since 1980, Canada has increased its share of high-wage auto assembly jobs to 16 percent of total U.S. and Canadian employment, in part because large unionized employers pay substantially less for health care under Canada's comprehensive national health care system. By contrast, in the restructuring following the U.S.-Canada Free Trade Agreement, it appears the United States will gain primarily low-wage auto parts jobs in companies providing limited health care that therefore have little cost disadvantage compared to Canadian parts producers.

[1] *Human Development Report 1991* (New York, NY: Oxford University Press, 1991), tables 1, 17, 32, and 38; and *World Resources 1992-1993* (New York, NY: Oxford University Press, 1992), table 16.3, pp. 250-251. Relative standings on these indicators probably reflect differential access to care—an issue OTA is examining in the assessment *Does Health Insurance Make A Difference?*, scheduled for publication in the fall of 1992. See also *Canadian Health Insurance: Lessons for the United States* (Washington DC: U.S. General Accounting Office, June 1991), p. 7.

care system puts less of a burden on manufacturers that provide good benefits. More generally, high-wage, high-productivity employers subsidize low-wage U.S. firms because many people holding low-wage jobs rely on health care benefits available to other family members. As it considers proposals for health care reform, Congress may want to consider approaches that would deter employers from competing by providing few or no health benefits.

2b: Promote Sectoral Wage Setting—As discussed in chapter 4, few institutions in the United States limit interfirm wage competition, which can push an entire industry toward low-wage strategies. There are two general approaches to industry wage setting:

1. collective bargaining on a sectoral basis between employer associations and committees of union representatives, as in Germany; and
2. "extension laws" that apply the basic terms of a central agreement negotiated between unions and employers to other firms in a designated industry.

Both approaches leave room for significant flexibility in wage setting. Sectoral agreements, for example, could permit firms to establish pay-for-knowledge ladders, or increase wages if their profits rise.

Congress could encourage sectoral wage-setting by giving the National Labor Relations Board (NLRB) the power to require all unionized firms in an industry to bargain together, either nationally or within a geographical area, perhaps on the basis of a petition from a specified fraction of the relevant employers or unions. Congress could also empower the NLRB to extend the key economic terms of a collective agreement to nonunion employers in the same industry and region, who might otherwise undermine high-wage, high-productivity strategies. As an exploratory option, Congress could begin by directing DOL to identify industry/region combinations in which sectoral wage setting might be tried on a pilot basis (perhaps with Federal funds for industrywide training as an incentive).

2c: *Tax Policies to Promote Worker Commitment*--Historically, the top marginal tax rate in the United States has been lower than in most other advanced industrial economies. One justification for this has been the "trickle down" view—that entrepreneurs create most wealth and that low marginal rates will provide incentives leading to more income for everyone. Industry studies and international comparisons suggest that contemporary wealth creation also has a substantial "trickle up' component. That is, efficiency improvements depend on widely diffused skills, worker commitment, and organizational competence. Very high ratios of executive to hourly pay can undermine commitment and cooperation.

Over the past decade, ratios of executive to hourly pay in the United States have risen to unprecedented levels: in 1960, the chief executive officers (CEOe) of the largest 100 U.S. nonfinancial corporations earned 40 times as much before taxes as hourly workers; by 1990, the ratio had risen to 95.[29] Many proposals have been made that would have the effect of narrowing this gap. One approach would build on the precedent of Internal Revenue Service rulings that prevent corporations from deducting "excessive or ' 'unreasonable' compensation from taxable revenues. Total compensation above some multiple of the earnings of the lowest paid worker in the corporation would be deemed ' 'unreasonable, ' and could not be deducted as a business expense. Although companies might find a way around even a carefully crafted law, such measures would nonetheless have a dampening effect, and add the weight of public policy to the negative publicity to which many corporate leaders have already been exposed.

An alternative would be an income tax surcharge on individual earnings that exceed some multiple of the lowest wage in the firm. Such measures would give top executives a personal incentive to raise the wages of their low-level employees. In the context of NAFTA, furthermore, managers would share in any benefits achieved through lower consumer prices while suffering less risk of displacement than lower level employees. It does not seem unfair to ask them to pay more in taxes. By accompanying an agreement with increases in human resource investments funded through a NAFTA tax surcharge, the United States would lay the basis for trickle-up productivity growth that benefits all citizens.

Option 3: Discourage State and Local "Bidding Wars" To Recruit New Industry

During the 1980s, as Federal economic development aid and revenue-sharing dropped, States and cities launched new economic development efforts. Although some—for example, the State industrial extension programs discussed above—provided forward-looking models for Federal policies, the primary focus has been on attracting industry and jobs through tax abatements, subsidies—new roads, industrial parks-and even relaxation of environmental and workplace health and safety standards. Despite periodic flurries of interest in science parks and high-technology development, many State and local programs seem to operate on the premise that any job is a good job.[30]

Often, State and local officials 'bid' against each other. Companies are more than happy to get what they can from these bidding wars, even though they may have already decided where to put their plant. The bidding drains tax revenues that could be used for productivity-enhancing services such as education. Nor do the expected benefits necessarily arrive. Between 1977 and 1988, for example, when rural southern counties succeeded in attracting new factories based in part on tax incentives, they continued to experience high unemployment and declining real per-capita income. Urban areas in the South, which spent more on education and infrastructure, attracted more and better paying jobs.[31]

As a first step toward ending bidding wars, the Secretary of Commerce could convene a meeting of State economic development directors to try to reach an agreement to stop the practice. If an initial agreement could be reached, it would be in the interests of the States to keep to it, since all would benefit. (Mexico, which sought to make discipline on regional subsidies part of a NAFTA, would

29 Robert Reich, ' 'Suite Greed, ' *American Prospect*, winter 1992, pp. 14-16. For more detail, see Graef Crystal, *In Search of Excess* (New York, NY: Norton, 1992). The proposal for excluding "unreasonable" compensation from allowable business expenses comes from Reich.

30 *After the Cold War*, op. cit., footnote 6, pp. 178-184.

31 Stuart Rosenfeld and Edward Bergman, *Making Connections* (Research Triangle Park, NC: Southern Growth Policies Board, 1989), p. ix.

Table 2-4-issue Area C: Participation in a Productive Economy

Options	Advantages	Disadvantages
1. Create a private-sector, multi-constituency Labor Market Productivity Center to encourage worker participation, work reorganization, and labor-management cooperation.	Helps build consensus. Could provide technical assistance and trained facilitators for strengthening cooperative labor relations.	Without worker and management commitment, might have little impact.
2. Establish Employee Participation Committees (EPCs) to consult with employers on issues of worker participation and productivity improvement.	Creates voice channels for workers not represented by unions.	Employers might oppose. Workers might not actively participate.
3. Extend union representation.	Expands channels for communication with management and helps assure workers that their interests will be protected if they participate in productivity improvement programs.	Wages and/or job protections won by unions could reduce competitiveness.
3a. Make discharge for union activity subject to damage awards.	Places rights to representation on a par with other employment rights.	Could lead to costly litigation.
3b. "instant" certification elections.	Reduces scope for confrontational campaign tactics.	Some employers would object.
3c. Permit supervisors to form their own independent unions.	Encourages supervisors to act as middlemen and team builders rather than overseers.	Supervisors might feel cut off from both management and workers.
3d. Foster "network unions" of workers in vertically linked firms.	Discourages suppliers from competing with one another by cutting wages.	Shifting relationships among firms could make it difficult to define network unions.
	Promotes cooperation among workers in companies that do business with one another.	Use of "secondary pressure" could be a blunt instrument for cementing relationships.
4, Encourage worker voice institutions in small firms and the service sector.	Improves job security for workers and creates mobility ladders, while making it easier for firms to locate qualified workers.	

SOURCE: Office of Technology Assessment, 1992.

presumably welcome such an agreement-and might make concessions elsewhere in exchange.) To reduce the temptation to break the agreement, Congress could consider the following two possibilities.

3a: Reduce Federal Funds for Economic Development in Proportion to Industrial Recruitment Incentives-The Federal Government distributed about $6.4 billion to cities and States for community and regional economic development in 1990.[32] Congress could encourage compliance with an agreement to curb bidding wars by directing the administration to reduce funds from these budget categories in proportion to the dollar value of incentives provided by cities and States to attract new businesses.

3b: Make State and Local Tax Incentives Subject to Federal Taxation—Alternatively, Congress could modify Federal tax law so that tax abatements provided by States and localities to businesses would be treated as part of corporate income for Federal tax purposes.

Issue Area C: Partcipation in a Productive Economy (table 2-4)

In recent years, unions, employers, and government officials in Mexico (and Canada) have begun to debate reform of their labor laws. The United States might benefit from a similar debate. The National Labor Relations Act (NLRA, also known as the Wagner Act), passed in 1935, remains the cornerstone of the U.S. system of worker representation. The Act reflects its times-it was written when the U.S. economy was largely self-contained and only tangentially exposed to international competition, and when large companies pursuing mass production strategies with mostly male workforces dominated U.S. manufacturing, The Wagner Act

[32] *After the Cold War,* op. cit., footnote 6, p. 173.

also reflects the adversarial labor relations of that era, in which employers and unions battled long and hard. Today, employers and workers in the United States confront foreign firms that in many cases benefit from labor-management cooperation. Moreover, the service sector of the U.S. economy has grown so that it far surpasses manufacturing, while women have entered the workforce in large numbers. The *new* economy calls for a new approach, with workers enlisted in the effort to improve productivity in all sectors,

Option 1: Create a Labor Market Productivity Center

To encourage participative forms of work organization and help define consensus on institutional innovations for supporting high-productivity strategies, Congress could consider creating a new Labor Market Productivity Center. The Center—governed by a multiconstituency private sector board, including business and organized labor—would support research, education, and information dissemination.

As chapter 4 points out, the United States lacks national institutions for bipartite or tripartite consultation on labor law and other labor policy issues. Canada established a bipartite (labor-management) Labor Market Productivity Center in the mid- 1970s that has proved its value in supporting research and dialogue on restructuring labor relations and labor market institutions. If Congress chose to create such an organization here, it could direct the Center to begin by examining methods for increasing worker participation. Specifically, Congress might direct the Center to develop a proposal for filling the U.S. ''representation gap' '—the absence of unions or substitute forms of employee representation in most workplaces—within a year after signing of a NAFTA.

In a related step, Congress could put DOL's Bureau of Labor-Management Relations and Cooperative Programs on a statutory footing and restore its funding. Created by the Secretary of Labor in 1980, and funded at about $5.7 million in fiscal 1991, the Bureau has been zeroed out in DOL's budget request for fiscal 1993.[33] The only part of the Federal Government with the specific mission of promoting labor-management cooperation, the Bureau has an experienced staff with a wide range of contacts among unions and employers. This expertise could be lost at a time when a NAFTA promises to create new tensions between labor and management.[34]

Option 2: Create Employee Participation Committees

Despite a great deal of talk, worker participation programs remain relatively rare in U.S. industry. Some nonunion firms have established them, often as part of efforts to remain nonunion. Firms with strong unions facing intense competition have sometimes established programs as part of efforts to improve productivity and quality, as illustrated by the case of Xerox Corp. (box 2-D). But probably no more than 10 to 15 percent of U.S. firms have made serious commitments to worker participation as part of efforts to adopt flexible, high-productivity work organization.[35]

To encourage more firms to move in this direction, Congress could consider calling for Employee Participation Committees (EPCs) at all firms with more than, say, 25 workers.[36] Unlike labor unions, EPCs would not have the right to bargain collectively, but they would have consultation rights and thus provide workers with a voice on the way firms treat and deploy their employees. In some

33 Unpublished memorandum prepared by the Bureau of Labor-Management Relations and Cooperative Programs.

34 Although Secretary of Labor Lynn Martin announced (in a speech to the *Natio~~bor.Management* Conference, Washington, DC, May 27, 1992) that DOL will form a new agency to take the Bureau's place, no action has yet been taken and some staff members have already resigned.

Congress might also consider *restoring $1* million *in* funding for grants by the Federal Mediation and Conciliation Service (FMCS), money that was cut from that agency's fiscal 1992 budget. Although the chief mission of the FMCS is to resolve labor disputes, the grants program has helped diffuse cooperative relationships and encourage productivity programs. See, for example, Margaret Hilton and Ronnie Straw, ''Cooperative Training in Telecommunications Case Studies, ' *Monthly Labor Review,* May ***1987,*** pp. ***32-36.***

35 ***Worker Training,*** op. cit., footnote 1, ch. 4.

Among small firms, worker involvement programs that succeed in raising productivity seem to be more prevalent in union than in nonunion firms. Adrienne E. Eaton and Paula Voos, "Unions and Contemporary Innovations in Work Organization, Compensation, and Employee Participation, " *Unions uneconomic Competitiveness*, Lawrence Mishel and Paula Voos, eds. (New York, NY: M.E. Sharpe, 1991).

36 The term is borrowed from Weiler, who also suggests 25 as a reasonable cut-off for requiring an EPC. Scc Paul C. Weiler, Governing *the Workplace: The Future of Labor and Employment Law* (Cambridge, MA.: Harvard University Press, 1990), p. 285. The rest of this discussion of EPCs draws heavily from pp. 282-295 of Weiler.

Box 2-D—Unions and Productivity

Many economists argue that labor unions, by raising wages above market-clearing levels, interfere with the efficient allocation of resources. Such an analysis neglects the potential productivity-enhancing effects of unions. Unions may be particularly important today, because the ability of U.S. firms to pay high wages and avoid direct wage competition with countries such as Mexico depends on fundamental changes in the way firm develop and use human resources. Unless companies move away from narrow jobs, hierarchy, and centralized authority, they will find it increasingly difficult to keep production in the United States. Nonunion companies may make only cosmetic changes because managers feel threatened by increases in the skills and authority of hourly workers. If union representatives press employers to define competitive strategies that will provide high pay and job security, meaningful change should be more likely to follow.

The history of cooperation and conflict between Xerox and the Amalgamated Clothing and Textile Workers Union (ACTWU) illustrates the positive role a union can play.[1] At the end of the 1970s, Xerox began to lose market share in photocopiers, dropping from 18.5 percent of U.S. sales in 1979 to 10 percent in 1984. By 1988, Xerox had managed to rebuild its market share to 13.8 percent. ACTWU, which represents 4,500 workers at Xerox's main production facility in Webster, New York played a central role in the turnaround through its involvement in programs of labor-management cooperation that significantly increased the company's labor productivity.

A quality-of-work-life (QWL) program initiated in 1980 marked the beginning of formal cooperative undertakings between Xerox and the ACTWU. The QWL program put production workers together in teams with supervisors, managers, and engineers. Given its slumping business, Xerox laid off workers during 1980 and 1981. In 1982, the company announced it would subcontract some of the Webster plant's production. Union leaders argued that layoffs and subcontracting would erode the trust that had begun to develop between production workers and managers. By threatening to withdraw union support from the QWL program, they persuaded management to establish a joint labor-management team to explore ways of keeping wiring harness production in-house. The study team's recommendations reduced production costs by 28 percent, avoiding the need for subcontracting. During this

[1] See the following publications from the Bureau of Labor-Management Relations and Cooperative Programs, Department of Labor, Washington DC: *Institutionalizing and Diffusing Innovations in Industrial Relations (1988); The Changing Role of Union Leaders (1988); The Changing Role of First-Line Supervisors and Middle Managers (1988). Also,* Joel Cutcher-Gershenfeld, "The Impact on Economic Performance of a Transformation in Workplace Relations," *Industrial and Labor Relations Review, vol. 44,* January 1991, pp. 241-260; and H. Garrett DeYoung, "Back from the Brink: Xerox Redefines Its Notion of Quality," *Electronic Business,* Oct. 16, 1989, pp. 18-22.

respects, EPCs would resemble the works councils found in Germany and other European countries.

EPC representatives at each workplace could be elected by vote of all employees (excluding top managers). In unionized companies, union representatives could serve as EPC representatives. In a multiestablishment firm, a companywide EPC could be established; in such cases, and in large single plants, worker representatives could be elected on a proportional basis from major occupational groups. EPC members would need time off the job and the financial resources to be effective. To ensure a genuine dialogue on the issues most vital to worker interests, employers would have to give EPCs some business information--+. g., on projected employment levels and investment decisions—and access to upper level managers.

EPCs could share responsibility for the annual workforce development plans discussed above (Issue Area A, Option 1). They might also be given a role in the implementation and enforcement of legislated employment standards (e.g., health and safety, the minimum wage). H.R. 3160, the OSHA reform bill, incorporates some aspects of this option. Section 201 of H.R. 3160 would direct firms with 11 or more full-time employees to establish joint workplace health and safety committees, and specifies the committees' rights to information on health and safety matters. If implemented, H.R. 3160 would be a first step toward filling the U.S. representation gap. It could also help counter pressures for downward harmonization of health and safety standards following from a NAFTA.

Although EPCs would extend and help institutionalize worker voice and participative management, they would not substitute for labor unions. Unlike the committees, which would be purely consultative, unions can pressure employers to reorganize work and pursue high-productivity strategies. In addition, through their political activities, same period, the union persuaded management to build a new toner plant in Webster rather than in a low-wage southern State. Working together on plant design and equipment, union and management representatives achieved lower costs and higher projected productivity than the targets for the southern plant,

In their 1983 contract, Xerox and the ACTWU agreed to establish similar study teams before taking decisions on outsourcing in the future. Four of five study teams subsequently formed were able to find ways of retaining work at the Webster plant. The 1983 contract also included a no-layoff guarantee for all Webster production employees. Both provisions were extended in the 1986 contract.

In 1986, union and management greatly increased the scope of their cooperative efforts. They agreed to implement a gainsharing plan and redesigned the company's program for controlling absenteeism. They also established Business Area Work Groups, composed of production workers, engineers, supervisors, and union officials who meet on a biweekly basis to discuss performance, safety, and other workplace issues, along with ''organizational effectiveness networks'—joint union-management groups that act as trainers, facilitators, consultants, and change agents. The ACTWU played an integral role in making Xerox a U.S. model of high-productivity, flexible manufacturing. In 1989, the company won the Federal Government's Malcolm Baldrige National Quality Award.

The union-in this case the United Auto Workers (UAW)--also plays a central role in General Motors' Saturn division, an attempt to "reinvent" a giant corporation. Saturn's strategy centers on three elements: advanced technology, including innovations in production methods; highly experienced workers, carefully selected from GM's ranks; and extensive union involvement in shopfloor decisionmaking (and in some cases beyond the shop floor). The Saturn contract, which differs from other GM contracts, puts all production workers on salary, with a portion of their pay linked to productivity, quality, and profits.[2] UAW representatives participate in performance reviews of managers. Production workers can deal directly with suppliers to solve quality problems. Joint union-management teams attack productivity bottlenecks, including product design features. Customer satisfaction has been extraordinarily high, and Saturn's Tennessee plant has been unable to keep up with demand. Perhaps most important, the UAW's involvement at Saturn illustrates potential for plant-level performance improvement that may prove harder to replicate in Mexico than classic lean production.[3]

[2] "Saturn," *Business Week*, Aug. 17, 1992, pp. 86-91.

[3] "The Auto and Electronics Sectors in US-Mexico Trade and Investment," report prepared for OTA under contract No. 13-1815 by Harley Shaiken, *May* 1992, p. 59.

unions can help shape policies for upgrading the skills, jobs, and earnings of large groups of workers and help make a case for investments in training and labor market adjustment programs on a national level.

Option 3: Extend Union Representation

Unions now represent only 12 percent of the private sector U.S. workforce, compared with about 17 percent a decade ago, limiting their ability to work with management for improving productivity. One reason for union decline has been the scope provided under U.S. law for employer opposition during the period between the filing of a petition for a certification election and the time of the election (ch. 4). By contrast, in most provinces in Canada, if 50 or 55 percent of the workers sign union cards, the union is automatically recognized. In the United States, unions often must generate collective anger against the company to win certification, so that the union-management relationship begins as an adversaria1 one. Congress could reaffirm the Wagner Act's protection of workers' rights to organize and bargain collectively in a variety of ways.

3a: Make Discharge for Union Activity Subject to Damage Awards—At present, the only remedies available to workers freed for pro-union activity during a certification campaign are reinstatement and back pay. Discharged workers have no right to sue for such damages as the loss of a house or car. Nor can they collect punitive damages. Given the steady broadening of legal rights to sue in cases of wrongful dismissal for employment discrimination, violation of an employee's right to privacy, and so on, the very limited remedies in cases of discharge for union activity seem increasingly anomalous. Existing penalties have not prevented the growing use of discharge to deter workers from forming unions.

3b: Instant Elections—Holding certification elections shortly after unions filed petitions—perhaps within *5* days, as in British Columbia and Nova Scotia—would reaffirm the right to organize. Some employers would object to this proposal on the basis that: 1) it restricted their free speech rights to campaign against the union; and 2) it would deprive workers who opposed union formation of resources that employers might provide to counter those provided by the union to its supporters. On the first issue, Congress would have to decide whether employers should have the central role they now enjoy in workers' decisions to form an independent union. On the second, Congress would have to weigh the possibility that workers will make an uninformed decision to join a union against the evidence that extended campaigns allow time for employer intimidation that can undercut employee rights to organize.

3c: *Extend the Protections of the NLRA to Supervisors*—The Taft-Hartley amendments explicitly deny the protections of the NLRA to frost-line supervisors (e.g., foremen). Employers sought the amendments because they did not want supervisors to have divided loyalties in mass production systems that relied on foremen to discipline the workforce and maintain an uninterrupted flow of output. In participative organizations, the supervisor's role undergoes a dramatic shift. Instead of sergeants on the company's side in an adversarial setting, first-line supervisors are supposed to act as team builders, facilitators for problem-solving, and skills developers. They *should* have divided-or rather dual—loyalties and serve not only as management's voice on the shop floor but as the worker's voice off it. As long as supervisors remain subject to top management authority, however, they can be forced to implement policies that cause workers to withdraw their cooperation. Helping supervisors insulate themselves from higher management through formation of their own, separate bargaining units would encourage the transition to more participative organizational practices.

3d: Foster the Creation of 'Network Unions"—Large employers pursuing low-wage strategies often provide a small core of workers with job security and relatively high wages, supplementing them with contingent workers (e.g., temporary employees) and purchasing as much as possible from low-wage suppliers. Treating workers outside the core as a cost instead of a resource undermines their commitment to performance improvement. Moreover, the security and high wages of core workers come, to some extent, at the cost of greater insecurity and lower wages for others, including workers in supplier fins.

To give employees of small supplier firms more representation and more security, Congress could encourage the formation of "network unions" whose members come from vertically related fins; as tighter relations between companies and their suppliers blur the separation between the two, worker representation might do the same. One way of promoting this would be to legalize contracts that foster unionization of suppliers+. g., clauses barring outsourcing to suppliers that refuse to stay neutral in union certification campaigns. At present, clauses such as these are illegal because of Taft-Hartley amendments restricting "secondary pressure. " Section 8(e) of the Taft-Harley Act, however, permits a union and an employer in the construction industry to agree that the employer will ''cease doing business with any other person" (including nonunion contractors). This clause could be extended to other sectors.

Option 4: Create Institutions for Worker "Voice" in the Service Sector

The options above would encourage worker participation in large establishments and in small manufacturing companies through network unions anchored in large core fins. Such policies would work less well in firms without stable supplier relationships and in small, high-turnover service establishments-for example, in retailing. This is a significant limitation: small firms and the service sector have been creating most new jobs, exhibit low productivity growth, and generally pay low wages. Multiestablishment labor market structures could reduce the number of low-wage, dead end jobs in small firms and the service sector, and help increase productivity. As discussed in box 2-B, earlier in the chapter, such structures would increase job security and career opportunities for workers in broadly defined occupations (e.g., clerical workers, waitresses).

One option for moving toward a high-skill, flexible service and small-firm sector would be to create multiestablishment EPCs. This could be done administratively through a tripartite National Board for Professional and Technical Standards, currently under consideration by Congress in S. 1790/H.R. 3470 (Issue Area A, Option 1). The Board could define a set of broad occupations, in some cases overlapping industry jurisdictions (e.g., retail food service workers, custodial workers, clerical workers). The NLRB would then supervise elections to multiemployer occupational EPCs from all establishments in a local area. Alternatively, multiemployer EPCs could be worker-initiated: if a certain fraction (say, 10 percent) of employees within a self-defined industry/occupation group requested the formation of an EPC within their geographical area, the NLRB would supervise an election of committee representatives.

Multiemployer EPCs could encourage multiemployer training in the service sector. They could also establish service sector 'hiring halls, ' which would provide a restaurant or women's clothing store with an accredited and experienced employee. Such labor market intermediaries would help reconcile employment volatility in small firms with job security for workers. Multiemployer EPCs could also be stepping stones to geographically based occupational unions.

CONTINENTAL OPTIONS

As the United States becomes more integrated with the world economy, it has less influence over the incentive structures of firms that employ its citizens and sell in its markets, Thus, in addition to reexamining domestic policies, Congress may wish to consider continental policies to accompany the freer flow of goods and capital within North America under a NAFTA.

Following the logic of the domestic policy options, the continental options discussed below and summarized in table 2-5 serve three functions:

Table 2-5—Continental Policy Options

Options	Advantages	Disadvantages
1. Negotiate a North American Social and Environmental Charter including a statement of principles and a plan for implementing them.	Provides a vehicle for promoting upward harmonization and a new social consensus in North America.	Mexico might oppose.
la. Create a North American Commission for Labor and Social Welfare with a permanent staff drawn from the three countries.	Furthers the goals of a charter, building on the foundation laid by information exchange under the U.S.-Mexico Memorandum of Understanding on labor issues.	Might be opposed by business. Could be *seen* as a threat to sovereign y, particularly by the Mexican government.
2. Manage continental trade and investment.	Reduces short-term pressures that can undermine labor-management and interfirm cooperation Stabilizes an open trade regime through pragmatic resolution of key trade tensions, possibly under GATT auspices.	Capture by special interests could lead to mismanaged trade.
2a Negotiate a Continental Auto Pact with Japan to restore and maintain balanced trade, or a Global Auto Pact also involving the European Community.	Accelerates transfer of high value-added production to North America and purchases from independent U.S. parts suppliers by transplants.	Could become slippery slope to Fortress North America
2b. Continental investment policy.	Encourages high-value-added production in North America without shieiding North American producers from competition.	
2c, Link trade and worker rights in the apparel industry.	Limits low-wage strategies and encourages rising labor standards in the most labor intensive of all manufacturing industries.	Some developing countries would oppose.
3. Establish a Binational Commission on Border Environment and infrastructure.	Could provide a vehicle for the United States and Mexico to agree upon funding mechanisms independent of annual budget appropriations, such as a "green tax" on U.S. investment in the region or on goods crossing the border.	Might be viewed as a trade barrier. An income tax surcharge on maquiladora profits would probably generate opposition from business interests in both countries.
4. Provide technical assistance to Mexico on workplace health and safety issues.	Starting point for actions to promote upward harmonization. Reduces likelihood of "social dumping."	

(Continued on nexf page)

Table 2-5-Continental Policy Options-Continued

Options	Advantages	Disadvantages
5. Provide financial assistance for Mexican development through a North American Regional Development Bank and/or North American Structural Funds.	Helps Mexico rake living standards, thus reducing competition with U.S. workers and pressures for emigration.	Could be expensive. Could lead to wasteful pork barrel projects in Mexico.
6. Establish North American works councils in firms with more than 1000 employees and more than 100 employees in each of two NAFTA countries.	Provides mechanism for negotiated resolution of labor tensions among the three countries. Should help lessen government influence over Mexican unions.	Likely to be opposed by the Mexican government and some employers.
7. Trilateral dispute resolution on labor issues.	Improves enforcement of existing labor laws in each country. Helps sustain public scrutiny of labor standards and labor rights.	Could be hard to define mutually acceptable principles and procedures, given likely opposition by one or more governments.
8. Shorter work time.	Helps achieve full employment and would probably raise output per hour. Helps manage workforce contraction in industries where total work hours are already declining. Reduces GDP growth rate needed for full employment.	By reducing output levels, could put North America at a competitive disadvantage. Difficult to enforce in small firms Could lead to increases in moonlighting by those with more time.
9. Create a Commission on the Future of Political Democracy in North America.	Encourages Mexico's transition to pluralist democracy and greater protection of human rights. Helps focus attention on underrepresented groups. Furthers ties among regional-level political bodies in the three countries.	Could generate opposition in all three countries because of fears of loss of national political authority.

SOURCE: Office of Technology Assessment, 1992.

1. to encourage high-productivity strategies within the United States and Mexico;
2. to discourage low-wage strategies; and
3. to promote worker participation and consultation.

The options would create incentives for Mexico to move beyond a policy of attracting investment through low wages, low labor standards, and lax environmental enforcement.

Option 1: A North American Social and Environmental Charter

In Europe, movement toward EC 92 has been accompanied by negotiation of a European Social Charter, followed by an Action Plan and "directives" designed to implement the charter's principles. In Canada, the recently negotiated draft constitution includes a Social Charter that affirms environmental protection and workers' rights. In the U.S. Congress, H.R. 4883, the North American Environmental, Labor, and Agricultural Standards Act of 1992, proposes that a NAFTA be accompanied by negotiation of a trilateral, enforceable set of threshold protections for workers' rights and environmental quality.

Negotiation of a Social and Environmental Charter by the United States, Mexico, and Canada could bean important step toward a high-productivity path for all three countries. In particular, it could provide a checklist of social and environmental principles against which actual practice in North America could be measured as economic integration proceeds. It might also become a vehicle for further definition of national and North American institutions necessary to implement a high-productivity strategy.

Negotiations and implementation could begin with health and safety standards, later perhaps expanding to include a continental minimum wage scaled to the level of development in each country or subnational region, as well as such provisions as continental works councils and trilateral enforcement of worker rights (Options 6 and 7 below). A charter could acknowledge North-South differences and the implications of these differences for migration and each nation's capacity to protect and enhance the environment and natural resources, while stating that action to protect and improve the environment would benefit all citizens of North America, not just those who live near areas of environmental degradation. Recognition of the right of all people to a long and healthy life, to education and training, and to decent living standards could underpin common North American policies towards refugees, asylum-seekers, and other categories of immigrants. By explicitly establishing the linkage between trade, investment, and social issues, the charter would provide an alternative to previous models for trade negotiations, which ignore or distance trade and investment from their broader social impacts.

The definition and implementation of a Social and Environmental Charter might proceed in three stages: a statement of general principles incorporated into a NAFTA preamble or a parallel agreement signed before the NAFTA vote in Congress; negotiation over a specified time period-perhaps 2 years-of an extended Social and Environmental Charter; and subsequent definition of implementation and enforcement mechanisms. The later stages in the process could take place under the auspices of a North American Commission for Labor and Social Welfare.

la: A North American Commission for Labor and Social Welfare—The initial fast track debate over labor and environmental standards and their relevance to a NAFTA led the U.S. and Mexican Governments to begin a number of information-sharing activities on environmental and labor matters (box 2-E). One approach to sustaining and deepening the dialogue on labor issues would be to create a North American Commission for Labor and Social Welfare. With a staff composed of civil servants from the three countries, the commission could be given administrative responsibility for trilateral labor immigration policies (including, e.g., several of the options listed below). To give the commission autonomy and perspective, it would need its own budget and a mandate to address issues

Box 2-E—The DOL-STPS Memorandum of Understanding

In May 1991, the Mexican Ministry of Labor and Social Welfare (STPS) and the U.S. Department of Labor (DOL) signed a Memorandum of Understanding (MOU).[1] The DOL-STPS memorandum calls for information sharing and other forms of cooperation in areas including: child labor; health and safety; employment statistics; and, since the September 1991 meeting of the U.S.-Mexico Binational Commission, under whose auspices the dialogue takes place, worker rights, labor-management relations, and the informal or "underground" economies of both countries. The results to date have included jointly drafted papers comparing health and safety and child labor regulation in the two countries, a conference on health and safety in the steel industry, and a series of papers on the informal sector.

MOU activities and the personal contacts established between the two labor bureaus provide a foundation for future activities. But, while it is impossible to interview officials in the Mexican STPS without recognizing their commitment to social welfare and their sophisticated understanding of labor market and industrial relations issues, MOU information exchange has so far skirted the core questions concerning Mexican labor relations. In particular, MOU activities have not led to any change in the positions taken by the administrations of both countries in the face of criticism of the Mexican labor situation: both governments maintain that Mexico has strong labor laws and both avoid any discussion of the relationship between the Mexican Government and Mexican labor unions. As discussed in chapter 4, the reality of basic labor freedoms in Mexico does not necessarily match the rhetoric. This is a complex issue, and the analysis later in OTA's report does not necessarily indicate that fears of U.S. workers are justified or that Mexican worker rights are weaker in general than U.S. rights. But acknowledging the potential weaknesses in Mexico's system of labor protection--and that of the United States—are necessary first steps in adapting these systems to continental interdependence.

[1] The text of the MOU appears in the administration's action plan on labor and environmental issues, "Response of the Administration to Issues Raised in Connection With the Negotiation of a North American Free Trade Agreement," May 1, 1991. Canada and Mexico later signed a similar MOU.

from the perspective of the welfare of workers in all three countries. At a minimum, a NAFTA or parallel agreement might charge the commission with producing an annual report that addresses three issues:

1. the current status of labor rights and standards in each country;
2. major labor market trends; and
3. migration.

The U.S. members of the Commission could be charged with writing a short assessment of the joint annual report, noting any sharp disagreements with their Mexican and Canadian counterparts.

Option 2: Manage Continental Trade and Investment

A NAFTA that made it easier for Asian firms to use Mexico as an export platform for shipping into U.S. markets might be good for Mexico but harmful to the United States. Most of the discussion about how to ensure that NAFTA leads to U.S. and Canadian coproduction with Mexico has been framed in terms of rules of origin-i.e,, what level of North American content would be required for goods to move tariff-free among the three countries. Rules of origin will vary by sector, with higher required content levels in sensitive cases, including autos and apparel. But given the low level of most U.S. tariffs, some producers might choose to pay duties rather meet required levels of North American content (even though few of those levels promise to exceed 65 percent).

Rules-of-origin for sensitive sectors could be complemented with a negotiated transition to common external trade policies. In cases where imports from outside North America threaten the long-term viability of U. S., Mexican, or Canadian industries, common external policies could include negotiation of continental managed trade. Together with complementary policies designed to foster restructuring within North America, continental managed trade would provide U. S., Mexican, and Canadian firms and their employees with critical breathing space. In considering this option, Congress would have to weigh the benefits of managing continental trade and investment against the drawbacks. All such policies risk outcomes that are ineffectual or counterproductive because ‘‘managed trade’ could become ‘politicized trade, ’ driven by special interests rather than what makes economic sense. One result, for instance, could be “capture” by multinational firms whose interests diverge from those of their workers and the three countries generally.

2a: A Continental (or Global) Auto Pact—In the near term, the United States, Mexico, and Canada might consider negotiations with Japan (and the EC) on trade in autos and parts. Although U. S., Mexican, and Canadian automobile production is now approaching levels of performance achieved in Japan (ch. 7), the collective North American trade deficit in autos and parts seems unlikely to shrink quickly in the absence of trade management because of commitments by Japanese automakers to their workers and suppliers in Japan. Imports from Japan lead to greater excess capacity in North America, contributing to layoffs, downward pressure on wages and labor standards, and intense supplier competition. These work against long-run strengthening of the U.S. and continental industry.

Following the EC’s example, the United States might consider combining a NAFTA with negotiation of a Japan-North America Auto Pact.[37] Such a pact could seek Japanese investment in North America in proportion to sales. This might be accomplished in a variety of ways, including 80 percent ‘‘net local content’ or trade balancing provisions (as proposed by the Canadian Auto Parts Manufacturers Association and the Canadian Auto Workers). Unlike restrictions on imports, such an approach permits compliance through balanced shipments between blocs--e. g., exports from North America to Japan.

The United States, Mexico, and Canada could alternatively or in addition propose a Global Auto Pact between Japan, the EC, and North America, perhaps under the auspices of the General Agreement on Tariffs and Trade (GATT). A global pact would seek to ensure balanced interbloc trade, and stabilize trade and investment rules for the world industry over an extended period.

Within North America, the proposed NAFTA would permit Mexico and Canada to retain a degree of protection for their national markets over transition periods of 8 to 10 years. In this context, the United States might consider seeking reciprocal

[37] The EC-Japan auto agreement combines restrictions on imports with local content requirements. *Competing Economies*, Op. cit., footnote 17, pp. 205-208.

protections-e. g., local content rules for transplant assemblers—that would help assure independent U.S. parts firms that their sales would not continue to melt away. Such safeguards could help parts suppliers, in particular, construct dynamic industrial networks domestically, rather than simply move to Mexico.

2b: Continental Investment Policy--Since joining GATT, Mexico has been liberalizing its restrictions on trade and investment. With a NAFTA, this process would continue, One result may be accelerated investment in Mexico by Japanese firms. Although these investments might transfer Japanese technology and organizational practices to Mexico, they would also intensify the pressures on established U.S. and Canadian firms (and Mexican firms). If they could, Japanese companies with plants in Mexico would bring in components and capital equipment from Asia rather than the United States or Canada. And a Mexico open to Japanese investment could lead to bidding wars pitting country against country for Japanese plants.

The range of options for regulating direct investment on a continental basis includes:

1. limits on new investment when substantial excess capacity already exists, possibly coupled with incentives for Japanese investment in modernization of *existing* facilities;
2. establishment of continental discipline on subsidies for new investment, aimed at limiting bidding wars (and complementing Option 3 under Issue Area B); and
3. guidelines to ensure that Japanese manufacturers transfer technology-intensive, high value--added production to North America.

Because all three of these alternatives stop short of limits on Japanese market share, they would not directly reduce the competitive pressures on North American producers to improve their own performance.

2c: *Link Trade and Worker Rights in the Apparel Industry*-For several decades, low-wage competition in the labor intensive garment industry has been indirectly governed by the Multi-Fiber Arrangement (MFA, ch. 9). With liberalization of apparel trade under the Caribbean Basin Initiative, NAFTA, and possibly GATT itself, apparel production could well gravitate to regions where workers are habitually exploited. Given the mobility and global dispersion of this industry, NAFTA would be too limited an instrument to have much effect. In this light, Congress could instruct the administration to pursue negotiations within the Organization of American States or GATT on trade and worker rights in the apparel industry. Any future liberalization of U.S. import quotas for apparel could be linked to the creation of multilateral institutions for monitoring worker rights in producing countries.

Option 3: Create a Binational Commission on Border Environment and Infrastructure

NAFTA negotiations focused attention on environmental problems along the U.S.-Mexico border, leading to parallel discussions on the environment and the *Integrated Environmental Plan for the Mexican-U.S. Border Area* discussed in chapter 6. The *Plan* is short on funding, vague on enforcement, and lacks deadlines. Estimates of the sums needed to clean up the region run in the billions of dollars, far more than either government has committed. To ensure that environmental issues continue to get high-level attention once the NAFTA debate is over, and that adequate funding for border improvements will be available, Congress could instruct the president to pursue an agreement with Mexico to establish a binational commission to determine needs and priorities and arrange financing. H. Con. Res. 325, for example, calls for a commission that would obtain funding by issuing bonds backed by both governments to be repaid by a mutually agreeable method, perhaps a tax on U.S. investment in Mexico's border area, Other alternatives include debt-for-nature swaps—basically, forgiveness of debt in exchange for a commitment to safeguard or improve the environment.[38]

Option 4: Technical Assistance on Workplace Health and Safety Issues

Mexico has fewer workplace health and safety regulations than the United States, and they tend to be considerably less detailed. In part, the differences reflect Mexico more collaborative and less sanctions-

38 In a private commercial swap, a nongovernmental group buys commercial bank debt at a discounted rate and returns it to the debtor country, which agrees to dedicate funds to environmental protection. In the public sector equivalent, such as the Enterprise for the Americas Initiative, the U.S. Government forgives debt+. g., repayment for food sent to a foreign country. See H. Williams III, ''Banking on the Future, " *Nature Conservancy*, vol. 42, May/June 1992, pp. 24-26.

oriented approach to improving health and safety. In some cases, they also reflect lack of the expertise and resources needed to develop detailed standards and measure levels of workplace exposure. One noncontroversial way for the United States to foster higher health and safety standards in Mexico would be for the Occupational Safety and Health Administration (OSHA) to provide Mexico with technical assistance--for instance, through OSHA's training programs for workplace health and safety personnel.

Option 5: Provide Loans and Aid for Balanced Economic Development in Mexico

Mexico has high levels of unemployment and underemployment, a rapidly growing labor force, and a foreign debt of over $100 billion-a combination suggesting that Mexico might continue trying to attract capital inflows through lax social regulation and low-wage policies.

In the EC, the potential for economic integration to increase income inequality and spur migration from poor economies to wealthier regions precipitated two complementary policies:

1. increases in structural funds that redistribute money to poor or depressed parts of the community; and
2. an effort to implement minimum community-wide labor standards and communitywide labor-management negotiation to foster higher standards in less affluent countries.

The Bush administration has argued that the EC negotiated a wide range of supra-national political and social agreements because it is establishing an economic and political union, which includes free movement of labor. The United States, Canada, and Mexico, on the other hand, are proposing only a narrow trade agreement. But differences in per-capita gross domestic product (GDP) are greater within North America than within the EC. The United States and Canada have per-capita GDPs about 10 times that of Mexico, while the EC's richest 260 million people have incomes about 2.5 times those of its poorest 80 million. In addition, legal and illegal labor flows from Mexico to the United States are higher than emigration from Spain, Greece, and Portugal to the rest of the EC.

A North American Development Bank (NADB), launched with capital contributions from all three countries, could provide loans for infrastructure and social spending in Mexico, including environmental improvement, rural employment creation, labor market, and health and safety programs, that would accelerate upward harmonization of Mexican wages and social standards and permit appreciation of the Mexican peso.[39] A second possibility would be structural funds that distribute aid for similar purposes. In Europe, structural funds provide financial aid to poorer countries that have been asked to accept continent-wide minimum social standards (and gradual introduction of a single currency) that limit their ability to attract investment through low wages and lax environmental regulation.[40]

Congress may want to defer consideration of structural funds, both because of resource constraints in the United States and because Mexico may not be able to absorb and put to effective use substantial additional funds in the short run (and instead might be tempted to use them to maintain the power of the ruling *Partido Revolucionario Institucional).* In the medium term, structural funmds would make it easier for Mexico to join in negotiating continental environmental and labor standards, while support for continental structural funds might emerge in the United States if they were understood as a mechanism for ensuring the improvement of standards in Mexico, thus relieving pressure on U.S. workers.

Option 6: Establish North American Works Councils

In light of EC 92, the European Commission has proposed establishing European Works Councils in companies that employ more than 1,000 workers in the community, and more than 100 in two or more member countries. North American Works Councils formed on a similar basis could have two major

39 For one proposal along these lines, see Albert Fishlow, Sherman Robinson, and Raúl Hinojosa-Ojeda, "Proposal for a North American Development Bank and Adjustment Fund,' *Business Mexico*, April 1992, pp. 47-50. While their proposal would include no direct aid, they suggest capitalizing the bank in a way that reduces Mexico's debt obligations. This could be done by giving commercial banks that hold Mexican debt NADB shares in exchange for writing off equal amounts of debt valued at the secondary market rate.

40 Based on past formulas used 10 allocate structural aid to poorer European countries, Mexico would be receiving roughly $10 billion annually-about 4 percent of its GDP. Instead, Mexico has been paying debt service of roughly $10 billion annually, at the cost of infrastructure and social investments essential to raising its productivity and social standards. The EC has pledged to double the size of its structural funds between 1993 and 1997.

benefits. First, regular meetings between U. S., Canadian, and Mexican workers should be a help to independent union leaders in Mexico seeking to negotiate the consensual modernization of Mexican industrial relations. Second, continental works councils could lay groundwork for the harmonization of Mexican, U. S., and Canadian labor standards, helping allay fears by U.S. and Canadian workers of being undercut by Mexico, while giving Mexican workers confidence that they would share in the benefits of productivity growth. Continental wage rules might also help stabilize bargaining in smaller firms by establishing a target wage increase considered affordable by employers and fair by workers. Over the long term, sectoral wage agreements might evolve in Canada, the United States, northern Mexico, and the Mexico City region, with continental agreements establishing links between wage increases in each region.

Option 7: Trilateral Dispute Resolution on Labor Issues

Critics of Mexican labor relations argue that, despite the laws on the books, weak enforcement and arbitrary government action hold down wages and result in inadequate protection of basic rights and health and safety standards in Mexico. Over time, U.S. workers fear, weak labor protection in Mexico could lead to competitive erosion of U.S. practices. This concern has prompted proposals for bringing enforcement of labor rights and standards under a dispute resolution procedure established by or in parallel with a NAFTA.[41]

The present administrations in both the United States and Mexico oppose incorporating labor rights and standards into a NAFTA or a separate trilateral dispute resolution system, suggesting that this could infringe on national sovereignty. (Even critics of the Mexican Government's worker rights record sometimes state reservations about delegating authority on labor issues to a body that might be dominated by the United States.) Nonetheless, in other areas where the dividing line between domestic and continental issues is grey-e.g., the two major ''capital rights, ' protection for intellectual property and resolution of investment disputes—issues of sovereignty did not prevent NAFTA negotiations over possible bilateral, trilateral, or third-party dispute resolution.

As a starting point for dispute resolution mechanisms, a panel could be established with at least three recognized authorities on labor relations from each country. The panel could hear cases from several categories of complainants+. g., those who believe their rights have been violated, those who believe they face unfair competition because of inadequate labor protections in one of the other countries, or groups acting on behalf of either of these parties.[42] In additon, a small "public defender's' office could be set up to help those without other resources bring cases before the panel.

At the beginning, a panel might have little or no power to impose frees or other sanctions, but could be charged to review the consistency of labor enforcement with each countrys own laws. Over time, a common set of principles-some of them defined by reference to standards of the International Labor Organization (ILO)--rnight be laid down in a NAFTA preamble, a parallel agreement on labor issues, or a continental social charter. With common principles in place against which cases would be reviewed, panels could then, following the precedent set by ILO committees of experts, issue periodic reports measuring each country's practices against those principles. Over time, dispute panels might take on enforcement powers. They might, for example, be given the authority to deny NAFTA trade preferences to a company or a sector in violation of labor standards. Alternatively, NAFTA signatories could delegate to panels the power to levy punitive or compensatory damages.

Option 8: Shorter Work Time

Reducing the length of the work week and increasing the length of vacations and other forms of leave--e. g., for training--could help increase the total number of North American jobs, reducing unemployment and increasing job security and promotion opportunities. These steps should increase productivity on a per-hour basis, because

41 See, for example, Michael S. Barr, Robert Honeywell, and Scott A. Stofel, ''Laborand Environmental Rights in the Proposed Mexico-United States Free Trade Agreement, " *Houston Journal of International Law*, vol. 14, fall 1991, pp. 1-84; also Ann Weston with Nona Grandea, "Social Subsidies and Trade with Developing Countries, ' Working Paper, North-South Institute, Ottawa, Canada, December 1991.

42 The details of this option are drawn from three sources, Barr, Honey-well, and Stofel, ibid., pp. 79-82; H.R. 4883, the North American Environmental, Labor, and Agricultural Standards Act of 1992; and the operating procedures of the Committees of Experts and Committee on the Freedom of Association of the International Labor Organization.

output generally declines more slowly than hours worked.[43] Training leaves or sabbaticals would contribute to lifelong learning, resulting in a more flexible workforce. Shorter work hours could confer environmental benefits by reducing the rate of economic growth necessary to achieve full employment—particularly desirable in Mexico, with its rapid labor force growth.

In recent years, work hours in the United States and Mexico have been *increasing—a* tendency that a NAFTA could reinforce because employers, workers, and officials in each country would fear a loss of production if they independently cut work time. Continental negotiations leading to sectoral agreements or legislation might solve this problem, and enable each country to shorten work hours without suffering a competitive disadvantage.

Option 9: A Commission on the Future of Political Democracy in North America

OTA's analysis indicates that the most fundamental threat to economic performance and social stability in North America stems from high levels of inequality in Mexico and the United States, and the possibility that neither country will invest adequately in the education and skills of its workers. A NAFTA could increase the danger if it led to further decline of political power among the lower income groups that lost the most ground during the 1980s.

While the future of political democracy in North America is an enormously sensitive issue, it is also an enormously important one. To address it, Congress could ask the administration to negotiate the establishment of a trilateral Commission on the Future of Political Democracy in North America. Focusing on the long term, the commission could be asked to analyze prospects for enhancing democracy in each country. The commission could also be asked to examine the extent to which continental integration threatens to erode national political authority, as well as prospects for expanding authority at regional and continental levels.

In a high-productivity future, the importance of regional concentrations of production is likely to grow in all three countries. Regional-level associations—for example, groups of States in the United States-could prove critical to nurturing industrial networks. Many such groups-for example, the Northeast-Midwest Institute and the Western Governors' Association—already exist, and have shown interest in possibilities for regionally integrated production. The Western Governors' Association already meets on a regular basis with premiers from Canadian provinces and governors from Mexico's border states. At the same time, dispute resolution, continental managed trade, and other North American institutions that grow out of NAFTA and subsequent negotiations inevitably imply some redistribution from national to trinational authorities—issues that would have to be addressed at some point as economic integration proceeds.

In politics and culture, as in industrial development, economic integration can accentuate the weaknesses of trading partners or their strengths. By self-consciously seeking a North America that combines the commitment to individual liberties of the United States with the emphasis on social justice found in Mexico and Canada, it should be possible to ensure that the strengths, not the weaknesses, will predominate.

43 Juliet Schor, *The Overworked American* (New York, NY: Basic Books,1992)