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**Chapter 4**

**Two Traditions, One Continent:  
Labor Relations and Labor Markets in  
Mexico and the United States**

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## Two Traditions, One Continent: Labor Relations and Labor Markets in Mexico and the United States

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### SUMMARY

This chapter compares labor relations and labor markets in Mexico and the United States. These will have a powerful influence on whether the two countries follow a high- or low-productivity path. The following conclusions result:

- The differences between the systems of labor protection in the United States and Mexico are systemic, linked to differences in political structure and history. No simple claim that Mexican labor protection is less adequate than U.S. protection or that Mexican labor protection is strong can capture the complex reality of interactions among government, labor, and business in Mexico.
- That said, there is a sense in which government intervention in Mexican labor relations violates U.S. conceptions of individual rights. To take the clearest example, Mexican workers rarely choose their own unions. In addition, the exercise of government power frequently compromises workers' freedom to bargain collectively and strike.
- From 1983 to 1988, the Mexican Government used its control over labor unions to achieve reductions in real wages of about 40 percent. While wages have recovered somewhat since 1988, if wage controls become part of a long-term strategy for attracting foreign investment, pressures on competing U.S. workers would increase.
- Despite the limitations on worker rights in Mexico, labor is more embedded in politics and society than in the United States. In the individualistic United States, unions are sometimes seen as a "third party," a remnant of a more primitive managerial era. In Mexico, workers collectively are viewed as one of the pillars of society. With some exceptions along the border, the presence rather than absence of a union is regarded in Mexico as normal and expected.
- In the United States, unions represent 16 percent of the workforce. This compares with 35 percent in the 1950s. While the proposed North American Free Trade Agreement (NAFTA) has so far focused the spotlight on Mexican labor rights, some observers view the decline in union membership in the United States as a consequence of inadequate protection of workers here from employer intimidation.
- Union decline and the globalization of the U.S. economy--of which NAFTA negotiations are a reflection--have hit U.S. workers hard. Imports and offshore production have displaced some directly. Displaced manufacturing workers frequently suffer substantial wage cuts. The future seems especially grim for workers with modest levels of educational attainment and skill.

It is in the context of the vulnerability of U.S. workers that a NAFTA and the prospect of 'accelerating economic integration with Mexico have become so controversial. OTA's analysis indicates that the growing interdependence of the labor relations systems of both countries could have mutually beneficial or mutually destructive results.

A mutually destructive interaction would hurt workers in both countries. In that scenario, employers and the state in Mexico would come to adopt the U.S. view that multiemployer unions are a "third party," while competitive pressure from Mexico further weakens the labor market position of less-skilled workers in the United States. Fueled by movement of capital to Mexico and Mexican workers to the United States, such an outcome would reinforce economic inequality in both countries and help entrench low-wage, low-productivity strategies throughout North America. Many of the policy options discussed in chapter 2 are intended to avoid these outcomes.

A mutually beneficial synthesis would combine U.S. views of individual rights with Mexican views of collective rights. U.S. recognition that elected representatives, including union officials, should be accountable to their constituents would be combined with the Mexican view that workers should have collective representation. Mexico's structures for

### *Box 4-A—The Origins of the Men-can System*

Mexican industrial relations emerged from a series of political bargains struck during and after the 1910-1920 revolution. The alliance between worker organizations and the governing political coalition culminated in 1938 with labor's formal incorporation into what is now the *Partido Revolucionario Institucional* (PRI, see box 3-D, ch. 3). From labor's perspective, in the context of a predominantly agricultural economy and employer opposition, alliance with the state provided a more rapid means of gaining strength than collective action; if government intervention in union formation and dispute resolution implied loss of autonomy, the power of government to force employers to accept unions seemed to justify the trade-off. Moreover, labor's place in the dominant political coalition meant substantial influence in shaping the legal foundation of labor relations--the 1931 Mexican federal labor law (which builds on Article 123 of the 1917 Mexican constitution).

The principles embodied in Mexico's constitution and federal labor law include:<sup>1</sup>

- . Labor standards are intended to provide a balance and social justice in the relations between employees and employers.
- . Both workers and employers have the right to organize for the defense of their respective interest--e.g., by forming unions and professional associations.
- . Strikes are legal when they have as their purpose the achievement of 'equilibrium' among the factors of production.
- . Work must guarantee employees and their families a decent living.
- . Permanent (*planta*) workers (as opposed to temporary or *eventuales* employees) fired without cause are entitled to additional severance pay.
- . Employers are obligated to train their workers.
- . Discrimination is prohibited on the basis of sex, race, age, religious or political beliefs, and social standing.
- . Social security should include protection against disability, old age, death, involuntary unemployment, sickness, and accidents. Child care services are also provided for in the social security article of Mexico's constitution.
- Labor standards are mandatory and workers' rights are irrevocable (i.e., may not be superseded by agreements between management and labor). Any renunciation of workers' rights is void. Ambiguities in labor standards are to be construed in workers' favor.

<sup>1</sup>This list is drawn from Art. 123 of the Mexican constitution and from the principles listed in Néstor de Buen Lozana and Carlos de Buen Unna, *A Primer on Mexican Labor Law* (Washington, DC: Department of Labor, Bureau of International Labor Affairs, 1991).

workplace labor-management consultation and national tripartite consensus-building on social issues would also contribute to a positive synthesis.

## **MEXICO'S LABOR RELATIONS SYSTEM**

U.S. labor unions fear that low labor standards and weak enforcement in Mexico would divert post-NAFTA investments to Mexico, placing downward pressure on U.S. labor rights and standards. In response, the Bush administration argued in its "Action Plan" on labor and environmental issues that Mexico has "strong labor protections" that are

"comparable to those in the United States, Europe, and other industrialized countries."

Mexican laws cover a broader range of labor standards than U.S. laws, mandating severance pay, vacation pay, maternity leave, and profit sharing (Mexico does not have an unemployment insurance program). Mexico's federal labor law also establishes several basic principles that are more favorable to workers than U.S. statutes (box 4-A). The questions raised in the NAFTA debate concern the force of these laws and principles. NAFTA proponents offer the law itself as evidence that Mexico has adequate labor rights; critics argue that the law is irrelevant to the practice, in which, they claim, the government, "official unions" (e.g., the *Confedera-*

1 "Response of the Administration to Issues Raised in Connection With the Negotiation of a North American Free Trade Agreement", May 1, 1991, sec. 3, p. 1. For a lengthier defense of Mexican labor rights, see "1991 GSP Annual Review: Worker Rights Review Summary, Case 001-CP-91: Mexico," Office of the U.S. Trade Representative, GSP Information Center, Washington, DC, November 1991.

*ción de Trabajadores Mexicanos, or CTM*, affiliated with the long-dominant *Partido Revolucionario Institucional*), and employers do not respect basic labor rights and standards.

Mexico's system of labor relations springs, not from the U.S. notion of society as an association of free individuals, but from a so-called "corporatist" view of society as comprised of groups: workers, peasants, employers, and the middle-class "popular sector." In the United States, the group is seen as subordinate to the individual, while in Mexico the individual is seen as part of a group. It is the responsibility of the Mexican state to mediate among major social groups to achieve social peace and social justice.

### ***Tripartite Structures and Labor-Management Committees***

The Mexican view of society and the state-labor alliance of the 1920s and 1930s underly the tripartite structures which, together with the Ministry of Labor and Social Welfare (*Secretaría del Trabajo y Previsión Social, STPS*), have responsibility for implementing labor law and mediating conflicts. Conciliation and arbitration boards at federal and state levels, with equal numbers of labor and business members plus a government representative, have broad authority over union registration and strikes.<sup>3</sup> These powers give the boards considerable influence over the character and composition of the union movement as a whole.<sup>4</sup> To initiate an authorized strike, a union must file a petition with the appropriate conciliation and arbitration board, ad-

ressed to the employer, 6 to 10 days in advance. The board may declare the strike illegal (*inexistente*) for a variety of reasons, including a finding that the union has not complied with registration requirements, or that a collective bargaining agreement already exists.

In addition to conciliation and arbitration boards, Mexican law provides for tripartite commissions that determine the minimum wage and annual profit sharing disbursements. Ad hoc commissions address issues such as labor law reform, discussed in a later section. In the workplace itself, federal law requires bipartite labor-management commissions on training and on health and safety.

In its tripartism and capacity for high-level consultation between unions and the government, the Mexican system of labor regulation resembles that of northern Europe (e.g., Sweden, Germany, Austria). However, Mexico's government has more power relative to labor than in Europe, while union leaders—with the support of the state—generally have more control over the rank-and-file. The end result, according to some analysts, has been that the Mexican labor-government link is more a means for enlisting lower class support for the governing elite than a means for social-democratic negotiations

### ***Union Formation in Practice***

Nearly all U.S. industries have some nonunion plants; unions gain their influence one workplace or one company at a time. In Mexico, manufacturing firms of any size (100 or more employees) outside

<sup>2</sup> Francisco Zapata, "Labor and Politics-The Mexican Paradox," *Labor Autonomy and the State in Latin America*, Edward C. Epstein, ed. (Boston, MA: Unwin Hyman, 1989); Kevin J. Middlebrook, "State-Labor Relations in Mexico: The Changing Economic and Political Context," *Unions, Workers, and the State in Mexico*, Kevin J. Middlebrook, ed. (La Jolla, CA: University of California, San Diego, Center for U.S.-Mexican Studies, 1991), pp. 1-25; and Graciela Bensusán, "Union Freedom: Real or Apparent Change in the Labor Scene," *Modernidad y Legislación Laboral*, Graciela Bensusán and Carlos García, eds. (Mexico City: Universidad Autónoma Metropolitana, 1989) [translated by Deanna Hammond, Congressional Research Service].

<sup>3</sup> The labor memberships of the boards (and other tripartite structures above the plant level) reflect the dominance of the official unions. Victor Manuel Durand Ponte, "The Confederation of Mexican Workers, the Labor Congress, and the Crisis of Mexico's Social Pact," *Unions, Workers, and the State in Mexico*, Kevin J. Middlebrook, ed. (La Jolla, CA: University of California, San Diego, Center for U.S.-Mexican Studies, 1991), p. 91.

<sup>4</sup> On paper, registration requires only that a union present a membership list including at least 20 active workers, a COPY of its by-laws, and a certified copy of the minutes of the general meeting at which the union was constituted and its board of directors elected. Nestor de Buen Lozano and Carlos de Buen Unna, *A Primer on Mexican Labor Law* (Washington DC: Department of Labor, Bureau of International Labor Affairs, 1991), p. 28.

<sup>5</sup> Laurence Whitehead, "Mexico's Economic Prospects: Implications for State-Labor Relations," *Unions, Workers, and the State in Mexico*, Kevin J. Middlebrook, ed. (La Jolla, CA: University of California, San Diego, Center for U.S.-Mexican Studies, 1991), pp. 57-84. According to Middlebrook in the same volume, p. 9:

... the postrevolutionary state's unchallenged control over coercive force and its well-developed administrative capacity place the national political leadership in a position to define (and redefine) the terms of the alliance, while the labor movement's structural weaknesses (comparatively small worker concentrations per firm and low overall levels of unionization . . .), and organizational weakness (poorly developed representational structures in many enterprise-level unions), and fractional divisions place labor in a generally subordinate position in decision making on wage levels, income policies, and economic development strategies-issues that directly affect workers.

*the maquila* sector are normally unionized.<sup>6</sup> The only question is which union will gain recognition, a choice usually made by national labor leaders, government officials, or employers, not by workers. In industries governed by a national, industrywide contract ('law contract' or *contracto ley*) the relevant national industrial union or regional federation becomes the representative. A *contracto ley* may be established at the request of unions representing at least two-thirds of the unionized workers in an industry in a given area. Once negotiated, it applies to all firms in the industry, including nonunion establishments. According to the Mexican Ministry of Labor, *contracto leyes* currently cover about 150,000 workers.

Where labor has been weak, as in much of northern Mexico, employers have more influence over union selection. Monterrey, the largest northern industrial center, has a tradition of "white" unions affiliated with individual enterprises or industrial groups. In *maquiladoras* on the northern border, a few cities—notably Matamoros, which has a strong, centralized CTM organization—are heavily unionized. Otherwise, labor authorities have generally accommodated *maquiladoras* that sought to operate nonunion or establish "protection unions."

The evidence suggests that the Mexican Government and official unions have often used their power to block independent union formation.<sup>8</sup> In an OTA

interview, an official of the Mexican Labor Ministry, while denying charges of manipulation, did acknowledge that independent unions often have difficulty in complying with registration requirements. In disputes over union registration, the threat of unemployment, coupled with lack of unemployment insurance, make independent activists vulnerable to legal delaying tactics and offers of severance pay. Official unions use contractual "exclusion clauses" "—which require employers to fire workers who are forced out of the union—to forestall independent, rank-and-file challenges. One source estimates that only about 5 percent of unionized workers are free from control of the PRI."<sup>9</sup>

### *Wages and Wage Setting*

From the 1940s until the crisis, Mexico had a stable relative wage structure, reflecting the influence of collective bargaining and minimum wages.<sup>10</sup> As well as wage increases from about 1950, Mexican unions obtained substantial improvements in non-wage benefits, including housing, education, health, and social security. But with large parts of the population in agriculture, and small firms in the informal sector not paying their social security obligations, Mexican health, pension, and housing funds cover only 40 to 50 percent of the population.<sup>11</sup>

<sup>6</sup> There are no reliable data on union membership in Mexico. Registration records held at federal and local conciliation boards and the unions' own membership figures both suggest that somewhat less than one-third of Mexico's workers belong to unions. Roughly one third work in the informal sector, with another third consisting mostly of managerial and technical workers. (OTA field visits suggest that skilled workers are more often defined outside the bargaining unit in Mexico than in the United States, reducing union leverage.)

<sup>7</sup> Protection unions provide employers with "protection contracts," under which, for a price, the union registers with the authorities—thereby impeding independent union registration—and then permits the employer wide latitude in setting wages, benefits, and working conditions. Workers might not even know they belong to a union.

Seeking to attract foreign investment, government officials have reportedly pressured national union leaders not to undertake major efforts to organize *maquiladoras*. According to OTA interviews with the managers of a *maquila* in a sparsely populated border area, "Companies choose the union when they start. . . . You're better off. . . . Otherwise you'll get one that will make trouble. . . ." In this case, management bought a union affiliated with one of the major federations; the managers of this *maquila* acknowledged that it was easier for them, as small independent contractors, to select their own union than it would be for larger, more visible plants.

<sup>8</sup> Kevin J. Middlebrook, "State Structures and the Politics of Union Registration in Post-revolutionary Mexico," *Comparative Politics*, vol. 23, 1991, pp. 459-478. Middlebrook also notes that the Mexican government has favored different union federations at different times to ensure that none, including the CTM, gained too much power. For details on formal rationales for denying independent union registration in 20 cases, see Arturo Alcalde, "State Obstacles to the Right of Union Association" *Modernidad y Legislación Laboral*, Graciela Bensúsán and Carlos García, eds. (Mexico City: Universidad Autónoma Metropolitana, 1989) [translated by Deanna Hammond, Congressional Research Service].

<sup>9</sup> Rodney D. Anderson, "Mexico," *Latin American Organizations*, G.M. Greenfield and S.L. Maran, eds. (New York, NY: Greenwood Press, 1987), p. 522.

<sup>10</sup> Before the crisis, the minimum wage directly determined paychecks for 40 percent of the workforce. From 1939 to 1950, average pay declined, as conservative union leaders accepted the need for savings and investment to stimulate economic growth. From the early 1950s to the early 1970s, wages rose steadily. Zapata, "Labor and Politics," op. cit., footnote 2, p. 176; Jeffrey Bortz, "The Effects of Mexico's Postwar Industrialization on the U.S.-Mexico Price and Wage Comparison" and Peter Gregory, "Comment," *U.S.-Mexico Relations: Labor Market Interdependence*, Jorge A. Bustamante, Clark W. Reynolds, and Raul A. Hinojosa Ojeda, eds. (Stanford, CA: Stanford University Press, 1992), pp. 214-242.

<sup>11</sup> Nora Lustig, "Mexico at the Threshold of Prosperity," unpublished draft, September 1991.

During the crisis, real wages fell dramatically. Devaluation raised the cost of imports and pushed consumer prices up by 60 percent in 1982 and 100 percent in 1983. As inflation accelerated, government officials looked to wage controls as a means of reducing inflation and expanding exports while limiting imports. The tripartite national minimum wage commission held increases below inflation so that real minimums—which had already declined 20 percent from 1977 to 1982—fell by a further 22 percent in 1983 and 50 percent from 1983 to 1988.<sup>12</sup>

Wage reductions led the CTM and independent unions to file some 14,000 strike petitions in 1983.<sup>13</sup> To contain the protests, federal officials persuaded other PRI-allied union federations to oppose CTM mobilization efforts; the government also withdrew recognition from some independent unions. Conciliation and arbitration boards generally ruled strike petitions *inexistente*.<sup>14</sup> The government also intervened against striking workers on highly visible occasions—at TelMex (the nationwide telecommunications company) in 1984 and 1987, at Mexicana de Aviación (one of two major airlines) in 1982 and 1987—in some cases resorting to violence.<sup>15</sup>

The 1987 economic solidarity pact (*Pacto*, ch. 3) ushered in a period of less openly conflictual efforts to control wages and bring down inflation. Under the *Pacto*, the Labor Minister sometimes calls in company and union negotiators to urge them to agree to noninflationary increases.<sup>16</sup> In the *maquiladora* sector, wages were controlled to a considerable extent even before the crisis—usually by local employers acting together. Instead of increasing wages to reduce turnover, many employers have taken the view that bidding up wages would simply

mean similar turnover at higher wage levels—hence, according to *maquila* managers in Tijuana, employers agree to hold wages at low levels.<sup>17</sup>

### *Shopfloor Relations*

Historically, Mexican manufacturing managers, like their U.S. counterparts, were content to push workers for greater effort. Committed to scientific management and mass production, they made no effort to improve productivity by tapping workers' skills. But rather than the 'Fordist' practices common in the United States—machine-pacing, job standards set through time and motion study, and large numbers of supervisors—smaller, less bureaucratic Mexican firms often relied on piece rates. Supervisors, sometimes union members, agreed to a price and took responsibility for distributing wages and overseeing production.<sup>18</sup> Delegation of authority to supervisors and work groups gave union officials and informal shopfloor leaders in some plants a more central role in hiring and production management than their counterparts in the United States.

Mexican labor relations began to change in the 1960s and 1970s, as a result of independent unions and the growth of *maquiladoras*. Independent unionism emerged out of a complex of economic and political developments. Economically, when Mexico's rapid development and increasing scale of production intensified the pace of work and tightened shopfloor customs in large Mexican plants, workers sought to replace systems of informal control (augmented by one appointed union delegate per plant or several plants) with direct election of larger numbers of shop representatives. Politically,

<sup>12</sup> As wages fell, the wage share of national income declined from 40 percent in 1981 to 27 percent in 1989. *Ibid.*, table III.3.

<sup>13</sup> Durand Ponte, "The Confederation of Mexican Workers, the Labor Congress, and the Crisis of Mexico's Social Pact," *op. cit.*, footnote 3, p. 100.

<sup>14</sup> Alejandro Alvarez Bejar, "The Economic Crisis and the Labor Movement in Mexico," *Unions, Workers, and the State in Mexico*, Kevin J. Middlebrook, ed. (La Jolla, CA: University of California, San Diego, Center for U.S.-Mexican Studies, 1991), p. 45.

<sup>15</sup> Alvarez Bejar, *ibid.*, p. 46, states that "union activists were assassinated in Acer-Mex and Refescos Pascual in 1982, and in dissident teachers' movements near Mexico City in 1982, Oaxaca in 1985, and Chiapas in 1987."

<sup>16</sup> According to "The Auto and Electronics Sectors in U.S.-Mexico Trade and Investment" report prepared for OTA under contract No. 13-1815 by Harley Shaiken, May 1992, pp. 44-45:

The Mexican Government also exercises considerable pressure both on the auto companies and the official unions not to violate the government's overall wage guidelines. . . . "We even get help from the government making sure that we don't settle too high," a Verde [Verde is the pseudonym of an auto plant] manager commented, "because of the economic reforms and the fact that we are so visible." He also speculated that the government had pressured the union into granting the company an extension in the most recent round of bargaining in 1992. "We suspect . . . the government was putting [pressure] on the CTM to settle at a low level because of [our] visibility," he added. An industrial relations manager at Azul [another auto plant] confirmed a similar pattern. . . . "The Labor ministry takes an active part in negotiations, especially in companies our size. And they steer the level of increases."

<sup>17</sup> Harley Shaiken, personal communication, July 1992.

<sup>18</sup> Francisco Zapata, personal communication, January 1992.

a wave of student unrest in the late 1960s, echoing that in other parts of the world, led to a bloody confrontation between students, the police, and the army. As part of later efforts to repair relations with the left, labor authorities more readily registered independent unions. In other plants, the threat of affiliating with independent unions enabled workers to pressure the CTM to accept greater local democracy,

During the same period, nonunion *maquiladoras* emerged in the north. In the 1980s, as Mexico sought to accommodate itself to the pressures of international competition, their labor practices seemed to some a possible direction for Mexican labor policy as a whole.

The economic crisis deepened the challenge to traditional Mexican industrial relations. In its wake, employers have sought greater flexibility to deploy workers and to lay them off. Some began seeking to include workers in programs to improve productivity and quality. Restructuring has taken place in different ways in different parts of the economy:

- Unilaterally in the face of worker and union resistance at traditional, often state-owned establishments.<sup>19</sup> With strikes protesting reorganization and privatization typically ruled illegal, workers and unions have eventually accepted privatization and bargained over severance pay. In the reorganized workplace, managers have taken at least some control from unions over hiring, work assignments, and promotions.
- Sometimes, though not commonly, through more negotiated, “consensual” restructuring, the best known example being at TelMex (box 4-B).
- Through new investment at greenfield sites—e.g., Japanese electronics *maquilas*, IBM’s computer facility in Guadalajara, and a number of export-oriented automobile engine and assembly plants built in the 1980s. These plants have no unions or unions with little shopfloor presence.

At TelMex and elsewhere, employers and the government remain torn between the unilateral imposition of “flexibility” and negotiations over a

more truly participative workplace that might ultimately prove more productive. The three paths by which Mexican companies have sought flexibility suggest three possible outcomes of restructuring:

1. autocratic shopfloor regimes, in which a roll-back of union influence, protective labor laws, and work rules gives management unilateral control (as in the United States in the 1920s);
2. a durable regime of negotiated flexibility; and
3. Japanese-style “lean production” with employers seeking cooperative labor relations in a context of weak unions or no unions.

Box 4-C includes examples of each.

## THE FUTURE OF MEXICAN INDUSTRIAL RELATIONS

For the past several years, Mexico has been debating labor law reform.<sup>20</sup> At its core, the debate is about which of the above models of workplace flexibility will predominate, and the future role of unions, if any, beyond the workplace. Employer proposals could be read as an attempt to generalize the practices found in *maquilas*. For companies, flexibility means relaxation of substantive labor standards such as severance pay and greater use of temporary labor. Employers’ associations also seek an end to the legal priority given to more senior workers over more skilled ones. Reformist labor groups favor greater union independence from the government, mandated collective bargaining, and participation in personnel decisions by workplace committees, as found in most European countries.

Official unions, the government, and the PRI are divided about reform. Union independence and expanded worker associational rights could reduce labor support for the PRI. Some PRI leaders also fear instability if unions are granted greater autonomy too quickly. Other factions within government and the official unions believe they cannot maintain their legitimacy and rebuild the economy unless unions become more accountable to their members.

A commission on labor law reform created by President Salinas after his inauguration has yet to deliver public recommendations. Union and government sources in early 1992 suggested that “now is

<sup>19</sup> For details on several cases, see Daniel LaBotz, *The Mask of Democracy: Labor Suppression in Mexico Today* (Boston, MA: South End Press, 1992).

<sup>20</sup> This overview of the labor law reform debate is based on Bensusán, “Union Freedom,”\* *op. cit.*, footnote 2.

### Box 4-B—Negotiated Flexibility at TelMex

During 1987, with preparations for the privatization of TelMex underway, government officials began negotiations with the Telephone Workers Union (the *telefonistas*), hoping to avoid the labor conflicts that had surrounded the sale of AeroMexico and other state-owned enterprises. In doing so, the government was able to take advantage of ties between the *telefonista* leader, Francisco Hernandez Juarez, and Mexican President Salinas, as well as the particular character of this union and the conditions in the industry.

Hernandez Juarez became president of the *telefonistas* in 1976, following a successful effort to dislodge the official leadership and establish an independent union. In the course of the next 12 years, the *telefonistas* called 8 strikes over wages and workplace issues. Towards the end of this period, confronted with the limits of working outside the system, the *telefonistas* joined the *Congreso del Trabajo (CT)*, Mexico's umbrella union organization, to which all major federations and many nonaffiliated unions belong.

Since Salinas came to power, Hernandez Juarez and the *telefonistas* have had generally cooperative relationships with the government. From Hernandez Juarez's perspective, seeking accommodation with Salinas made sense because the union had little bargaining power. For the government, Hernandez Juarez represented anew brand of labor leader who might prove instrumental in modernizing state-labor relations. At the same time, TelMex appeared set for a period of substantial new investment following privatization. Cooperative relations with its skilled workforce would be needed to upgrade the nation's telecommunications system (see ch. 8, box 8-B).

In negotiations, the government was able to get the *telefonistas* to accept privatization and support efforts to improve productivity and service in exchange for several commitments:

1. workers would not be laid off without union consultation and, at a minimum, severance pay of 5 months plus 40 days per year of service for regular (*planta*) workers;
2. workers would be trained for new positions; and
3. workers would receive 5 percent of the stock of the privatized company.

Still unclear at TelMex is exactly what the rights and responsibilities of labor will be within a more flexible private company. In 1989, before privatization, a contractual provision giving the union rights to information and consultation on modernization (e.g., introduction of new technology, work reorganization) was "brutally mutilated," restoring unilateral management authority in most aspects of restructuring.<sup>1</sup> Since then, a new clause has given more limited rights back to the union.

<sup>1</sup> Enrique de la Garza Toledo, "Productive Restructuring of the Contractual Model and of Unionism in Mexico," *Sindicalismo Mexicano de Los 90's*, Jose Woldenberg and Carlos Garcia, eds. (Mexico City: *Instituto de Estudios Para La Transición Democrática and Friedrich Ebert Stiftung*, 1990) [translated by Deanna Hammond, Congressional Research Service].

not the time" for reform. NAFTA, the opening to foreign investment, and the transformation of the *ejido* system give the government enough to worry about. No doubt the Salinas administration also fears that a reform proposal could be read in the United States as a weakening of labor standards or an implicit acknowledgement of the current extent of control over labor relations by the state and official unions.

Instead, the government, labor, employers, and peasant groups negotiated a National Accord on Raising Productivity and Quality.<sup>21</sup> Signed May 25, 1992, the accord emphasizes the need to improve human resources and calls for worker participation

in efforts to improve productivity, equitable sharing of the benefits, and the acceptance of unions as "legitimate coparticipants in the development of companies. It stresses the role of the sectors—labor, business, and peasant organizations—in implementing "a broad social movement for production" and a "new work culture." On paper, the accord looks like the outline of a move towards negotiated flexibility. What remains unclear is whether Mexico's new set of principles will mean any more than its old set.

Developments in Mexico over the past two decades suggest two institutionally distinct systems spanning the range of possible outcomes. The first:

<sup>21</sup> "Accord on Productivity, Quality Concluded," *Daily Report: Latin America*, FBIS-LAT-42-119, Foreign Broadcast Information Service, June 19, 1992, translated from *Excelsior*, May 27, 1992.

**Box 4-C—Flexibility in the Mexican Auto Industry: Three Cases**

**Autocratic Shop Floor Relations<sup>1</sup>**

In the Mexican auto industry, ironically, a Japanese firm provides the clearest example of flexibility as a vehicle for authoritarian management. Hokkaido--pseudonym for a factory complex northwest of Mexico City that produces engines, transmissions, transaxles, and stampings--performs nearly as well as sister plants in Japan. The facility employs an unusually high level of salaried, nonunion personnel--42 percent of the workforce of 2,700 (including several hundred Japanese nationals). A compliant CTM union with no shopfloor presence represents the rest of the workers, towards whom Hokkaido pursues what might be called a *maquila strategy*: workers perform narrowly defined jobs at an intense pace for wages one-third lower than at other Mexican auto plants.

Turnover in 1990 was 100 percent. Asked why workers quit, one manager answered, "The pay is poor, the work is heavy, and the company always asks for more." One Mexican executive said, "basically what we have in this plant is a modern form of slavery; it's a kind of peonage the way people are treated."

**Negotiated Flexibility**

Sealed Power Mexicana (SPM), a joint venture between Sealed Power-U.S. and Condumex, a diversified Mexican auto parts firm, provides a sharp contrast to Hokkaido. SPM's Naucalpan plant, near Mexico City, makes piston rings--a product demanding high precision and consistent quality. For many years, supervisors had exercised arbitrary authority and demanded favors from workers in return for better treatment. The company frequently violated its CTM contract--sometimes failing, for instance, to pay for overtime and vacation periods--and was unresponsive when workers complained.

The local union cut its ties to the CTM in a 1979 election, voting 274 to 1 to become independent and to join the iron and steel industry section of FAT (*Frente Autentico del Trabajo, the Authentic Front of Labor*), setting the stage for several years of adversarial relations with SPM management. In the mid-1980s, under pressure from Ford, a major customer, the company tried to unilaterally impose a total quality control (TQC) program. Ten months before a deadline set by Ford for achieving top quality (Q1) status, SPM managers came to the union to ask for help. The union agreed to support TQC provided product quality targets were accompanied by quality of life for workers both on the job and outside the plant.

Reorganization at SPM included a shift to participative management, with workers taking more responsibility while supervisors acted as teachers and facilitators. The company achieved Ford's Q1 status and, in 1990, General Motors' "Level 3" classification qualifying SPM to export to the United States. For their cooperation, workers have achieved what a union leader in early 1992 termed "the best contract in Mexico."

**Lean Production: Cooperation Without Negotiation?**

Many managers, particularly in companies facing new competitive pressures, would prefer workers to support company goals, as at SPM, while management retains unilateral authority, as at Hokkaido. A number of export-oriented engine and assembly plants operated by U.S. automakers in northern Mexico began with the goal of emulating Japanese practices, transcending both Taylorism and the adversarialism of Big Three-UAW relations in the United States. Unlike Hokkaido, these plants have attempted to develop and diffuse skills on a scale unprecedented in Mexico--the classic example being Ford's Hermosillo facility, where managers have experimented with rotating production workers between the assembly line and skilled, craft jobs that would be held by 4-year apprentices in the United States.<sup>3</sup> At least initially, their unions have been compliant.

<sup>1</sup>"The Auto and Electronics Sectors in U.S.-Mexico Trade and Investment," report prepared for OTA under contract No. I3-1815 by Harley Shaiken, May 1992.

<sup>2</sup>This account is based on "Total Quality, Case 3: Sealed Power Mexicana," Mexico City, Mexican Institute for Total Quality Control, and an OTA interview with Benedicto Martinez, union leader at Sealed Power Mexicana, Jan. 31, 1992; and Maria de los Angeles Pozas, "Modernization of Labor Relations in Companies of Monterey," University of California San Diego, Center for U.S.-Mexican Studies, forthcoming [translated by Deanna Hammond, Congressional Research Service].

<sup>3</sup>"The Auto and Electronics Sectors in U.S.-Mexico Trade and Investment," Op. cit., footnote 1.

an enterprise union/nonunion model, in which the role of labor atrophies beyond the workplace level. The second possibility is social corporatism on

European lines. The two possibilities differ along four dimensions: type of union; workplace relations; wage setting; and labor's role at sectoral and

Management control and worker cooperation may prove to be an unstable combination in Mexico, with auto plants and Mexico as a whole—ultimately swinging toward negotiated flexibility or autocratic management. Workers achieving U.S. productivity and quality levels have argued that they should be paid more like U.S. workers. Conflicts over wages have contributed to high turnover and growing ambivalence about cooperation with performance improvement programs.<sup>4</sup> Another context where management has sought both cooperation and greater managerial authority is Ford's Cuatitlan factory, near Mexico City.<sup>5</sup> With the consent of the CTM, the company reorganized the plant along the lines of its flexible northern factories. As Cuatitlan reached full production, workers resisted what they saw as tighter discipline on the shop floor and an increase in workload. The leader of a group of 1,000 dissident workers, Raul Escobar, called the change one that “puts the union to the side and establishes a unilateral relationship where, in effect, the company imposes everything.”<sup>6</sup> When workers sought to switch their union registration and gain the right to elect the leader of the national Ford union, conflict with the CTM followed, leading to the death of one of the dissidents in early 1990. A year and a half later, in a highly controversial election, Cuatitlan workers voted to reaffiliate with the CTM by 1,325 to 1,112.

No matter what version of the episode one accepts, the events at Cuatitlan point to three possible opponents of a transition to negotiated flexibility:

1. the leaders of official unions, many of whom would lose their place and power
2. government officials, either because they believe autonomous unions would hurt the economy or because losing control over unions would jeopardize the PRI politically; and
3. employers reluctant to cede managerial prerogatives.

The recent discharge of 14,200 workers at Volkswagen's huge Mexican complex and the annulling of the contract between VW and the independent union there raise further questions about the prospects for negotiated flexibility.<sup>7</sup>

<sup>4</sup>Because *Pacto* wage controls make employers less willing or able to share the benefits of productivity with workers, increasing turnover of workers with scarce skills, and undermining worker commitment, some analysts see the *Pacto* as an increasing obstacle to the diffusion of cooperative workplace relations in Mexico—particularly in Monterrey. Pozas, “Modernization of Labor Relations in Companies of Monterrey,” op cit., footnote 2; and Lourdes Melgar, “Emerging Alternative Forms of Economic Development” paper presented to the Annual meeting of the Latin American Studies Association Washington, DC, Apr. 4-6, 1991.

<sup>5</sup>This account is based on Pozas, *ibid.*, p. 18; an OTA interview with a former elected representative at the plant, Jan. 31, 1992; and Daniel LaBoz, *The Mask of Democracy: Labor Suppression in Mexico Today* (Boston, MA: South End Press, 1992).

<sup>6</sup>Pozas, *ibid.*, p. 15.

<sup>7</sup>“Mexico: Mending the People's Car,” *The Economist*, August 22, 1992, p. 31. According to this article, “management, having talked to the Labor Ministry, said it would rehire most, but not all, of the sacked workers, on the company's terms.”

national levels. The two outcomes carry differing implications for U.S. workers who might find themselves competing for jobs with Mexico.

In the enterprise union/nonunion alternative, the number of nonunion firms and employer-dominated unions would grow under the influence of conservative government labor policies and foreign investment. Large firms would emulate lean production practices pioneered in Japan, although worker commitment and training might be limited to a minority of workers (as at Hokkaido, box 4-C). Smaller firms would pursue low-wage strategies with autocratic shopfloor relations. Wages would be set at the enterprise, not the industrial or national level. In retrospect, wage regulation during the crisis—with falling minimum wages, together with greater inter-industry wage differentials—would come to be seen

as a stepping stone from the rigid wage system of the 1970s to decentralized “market-determined” wage setting. A diminished role for labor nationally would mean less stress on equity in education and training, social security, labor market, and regional development policies.

In the social corporatist alternative, government would encourage unions that were more responsive to their members. The negotiated flexibility seen emerging at TelMex, Sealed Power Mexicana, and some companies in Monterrey would spread. Companies and workers would benefit from increasing productivity and rising wages. Unions would regain influence over sectoral, regional, and national wage setting. As well as minimum wages, modified forms of sectoral *contracto leyes* might emerge. At the national level, democratic social corporatism would

mean greater distributional equity in labor and social policies.

Despite the current emphasis on the market as Mexico deregulates, and the defensiveness of unions, social corporatism remains a possibility because labor is so deeply embedded in Mexican society. Even among employers, the U.S. notion that unions are a 'third party' is uncommon. Moreover, Mexico has a much broader set of concertation structures—from mixed commissions in the workplace, to *contracto leyes*, to tri-partite minimum wage and profit sharing commissions and the new productivity accord itself—than the United States. In the *Congreso del Trabajo*, Mexico also has an umbrella labor organization that might, if democratized, provide a unified voice for labor at national political levels, as in European social democracies. But it is not clear whether business and especially the political elite will grant labor the independence necessary for such an outcome; union democracy and social corporatism could mark the end of the one-party state.

The U.S.-Mexico economic relationship would be easier to manage if Mexico develops in a social corporatist direction. Rising wages and greater equity, along with better education and training leading to greater opportunities at home, would help slow emigration and increase demand for U.S. exports. (In Spain, infrastructure and human resource investments paid for in part by European Community structural funds created opportunities and expectations sufficient to reduce emigration nearly to zero, even while the German-Spanish wage ratio remained around three to one.) By contrast, an enterprise union model with stagnant wages would cause even more Mexicans to cross the border and slow market growth in Mexico. The enterprise union outcome also implies low labor standards for a greater portion of the Mexican economy. Under social corporatism, in contrast, Mexican workers would seek industrywide or national policies to keep small firms and the informal sector from undercutting their standards—and by extension, U.S. standards in labor-intensive industries. The strength of unions in a democratic social corporatist Mexico would also facilitate negotiation of continental rules discouraging low-wage strategies.

## LABOR RELATIONS IN THE UNITED STATES

### *The New Deal and After: Labor Relations in the Era of Mass Production*

Like Mexico, the United States is in transition from a mass production economy driven by domestic demand to a new structure adapted to competition in a regionally and globally integrated economy. This entails changes in the industrial relations system that developed from legislative initiatives and political conflicts in the New Deal and World War II eras. That system included the following features:<sup>22</sup>

- *Employer hostility to unions.* Many U.S. employers are more strongly opposed to unions than their counterparts in Western Europe, Mexico, and even Canada.
- *Adversarial labor-management relations.* Rhetorically, and often in practice, relations between employers and unions have been governed by an implicit assumption that one side's gain is the other's loss.
- *Exclusion of workers from efforts to improve performance.* Compared to Japanese, European, and even Mexican employers, U.S. firms tend to be more deeply committed to the principles of scientific management and to systematic efforts to deskill jobs.
- *Decentralized bargaining.* Collective bargaining generally takes place at the firm or plant level, rather than on a sectoral or geographic basis.
- *Exclusive representation and a rigid union/nonunion distinction.* Laws in Mexico and in many industrialized countries grant union representation on the request of small numbers of workers and/or provide legal support for sector-wide collective bargaining. Such an approach limits wage competition between union and nonunion firms, and thus employer opposition to unions. By contrast, U.S. policies calling for exclusive representation by majority vote, along with decentralized bargaining, heighten competition between union and non-union firms.
- *A relatively weak and decentralized union movement.* Labor in the United States is farther

<sup>22</sup> This summary draws heavily from Ray Marshall, "Unions and Competitiveness," *Empowering Workers in the Global Economy: Conference Proceedings* (Toronto, Ontario: United Steel Workers, October 1991).

removed from centers of political power than in most Western European countries and Mexico. Together with a recent tendency to label unions as just another special interest group, this limits potentials for political trade-off at the national level (e.g., wage restraint in exchange for more active labor market policies).

- *Limited government involvement in labor-management issues.* The U.S. Government rarely seeks centralized bipartite or tripartite consultation on policies affecting the labor market or the economy as a whole.

### The Legislative Framework

With the Great Depression of the 1930s creating demands for action to alleviate economic distress and counter the power of large corporations, Congress passed the three legislative pillars of postwar U.S. labor regulation:

1. *The National Labor Relations Act of 1935* (NLRA, also known as the Wagner Act) provided Federal protection for workers' rights to organize and bargain collectively, barred firing of workers for union activity, and outlawed company unions.
2. *The Fair Labor Standards Act of 1938* (FLSA) established national standards for hours of work, minimum wages, and child labor.
3. *The American Social Security Act of 1935* (ASSA) created a national contributory old-age pension system, the foundation of the current social security system. This legislation also established state-provided unemployment insurance (UI) and Aid to Dependent Children (ADC, later Aid for Families with Dependent Children, AFDC).

New Deal labor and social security legislation reflected a balance between the preferences of northern liberals and the emergent labor movement on one side, and southern Democrats and low-wage employers on the other. In the case of the minimum wage and UI, employers in the industrial north joined with labor to win a uniform national standard that protected both groups against low-wage, southern competition.<sup>23</sup>

Conflict between advocates of national standards and "states rights" recurred periodically, shaping the 1946 revision of the NLRA, when Republicans and southern Democrats passed the Taft-Hartley Act over President Truman's veto. Taft-Hartley provided a legal basis for intraindustry wage differentials that are large compared to other countries, making it easier for employers to pursue low-wage strategies in small, rural, and southern plants. With limited exceptions for the construction industry, the law barred "secondary pressure" such as boycotts or picketing by employees of one establishment aimed at others, as well as collective agreements restricting sourcing from nonunion firms. These prohibitions on secondary pressure contrast with Mexican *contracto ley* provisions and European legislation facilitating sectorwide collective bargaining or the extension of the terms of major collective agreements to other employers (nonunion as well as union) in the same sector. Taft-Hartley also allowed States to prohibit the union shop (collective agreements requiring all workers in an establishment to join the union) and removed first-line supervisors (e.g., foremen) from bargaining units, ensuring, at least formally, that these pivotal "men in the middle" would remain on the side of management.

### Postwar Shopfloor Relations and Wage Bargaining

Most large U.S. manufacturing firms eventually made pragmatic decisions to recognize unions, shifting their attention to shaping labor relations in ways that would preserve their freedom of action. They had two major priorities: ensuring that unions did not infringe on management's prerogative to run the business; and avoiding the work stoppages that were so expensive in interconnected, mass production industries. To achieve these goals, U.S. manufacturers, led by General Motors (GM), made two primary concessions to unions. Large employers granted annual increases in real wages roughly paralleling productivity increases, while supple-

<sup>23</sup> In some southern industries, the new minimum wage was higher than the previous wages of 70 percent of the workers. Gavin Wright, *Old South, New South* (New York, NY: Basic Books, 1987). When it came to social security provisions, southern opponents of national standards managed to retain considerable discretion for States over benefit levels, eligibility, and administration. They also supported health care providers in pressuring President Roosevelt to withdraw health insurance provisions from the 1935 social security act.

menting these with periodic improvements in non-wage benefits. Employers also accepted contracts specifying detailed job classifications and seniority-based work rules that limited scope for arbitrary supervision.

Employers accepted this system because it meshed with business strategies of the mass production era:

- Contractual increases in real wages complemented mass production by sustaining consumer demand. Despite the absence of European-style centralized bargaining, real wage increases diffused through ‘‘pattern bargaining,’’ in which unions in individual plants or companies sought to match the gains achieved at core firms like GM. Periodic increases in the minimum wage helped low-wage workers maintain their incomes relative to those in unionized manufacturing sectors.
- So long as expanding markets limited need to lay off workers or move them among jobs, contractual work rules tied to narrow job classifications did not appear to impair efficiency. Enforcement of work rules off the shop floor via a multistep grievance procedure and third-party arbitration—rather than via work stoppages—minimized disruptions of production.

While they won restrictions on arbitrary supervisory actions, unions gained no role in management. Rather, the United States adopted the doctrine of ‘‘retained management rights’’—that management had full prerogatives over matters not explicitly covered in the contract. The axiom ‘‘management acts and the union grieves’’ captured the essence of postwar U.S. labor relations. With unions in a reactive role and production workers confined to a narrow range of deskilled tasks, the adversarial system left labor out of efforts to improve productivity. Government, moreover, had a more limited role in collective bargaining, dispute resolution, and wage regulation than in many European countries or Mexico.<sup>24</sup>

<sup>24</sup> Although some presidents resorted to jawboning to end strikes or curb wage increases, routine involvement by the executive branch entailed little more than appointments to the National Labor Relations Board (NLRB) and the judiciary. One observer argues:

The fact that the role of government in this country remains largely hidden. . . means that the rules dominate the spirit—there is no forum for building of public agreement or shared vision. Indeed, the NLRB avoids public involvement or debate in its proceedings. Unlike most regulatory agencies, it holds no hearings . . . the NLRB is resolutely unreflective, and the framework as a whole continues to develop by patchwork additions.

Charles Heckscher, *The New Unionism: Employee Involvement in the Changing Corporation* (New York, NY: Basic Books, 1988), p. 52.

Table 4-1—Union Coverage in the United States

	Union members as percentage of employed workers	
	1983	1991
<b>Industry group</b>		
Agriculture. . . . .	3.4%	2.1%
Mining. . . . .	20.7	15.0
Construction. . . . .	27.5	21.1
Manufacturing. . . . .	27.8	20.3
Durable goods. . . . .	29.2	21.9
Nondurable goods. . . . .	25.9	18.0
Transportation and public utilities. . . . .	42.4	31.2
Wholesale and retail trade. . . . .	8.7	6.7
Finance, insurance, and real estate. . . . .	2.9	2.4
Services. . . . .	7.7	5.7
All private nonagricultural wage and salary workers. . . . .	16.8%	11.9%
<b>Occupational group</b>		
Managerial and administrative. . . . .	8.10/0	6.40/.
Professional. . . . .	24.0	21.7
Technical and support. . . . .	13.3	11.7
Sales. . . . .	6.7	5.2
Administrative support, including clerical. . . . .	15.0	13.5
Service occupations. . . . .	15.3	13.9
Precision production, craft, and repair. . . . .	32.9	25.9
Operators, fabricators, and laborers. . . . .	35.5	26.3
Machine operators, assemblers, and inspectors. . . . .	36.9	26.8
Transportation, materials moving. . . . .	38.5	28.4
Handlers, equipment cleaners, helpers and laborers. . . . .	29.5	23.6
Agriculture, forestry and fishing. . . . .	5.5	5.0

SOURCE: Department of Labor, Bureau of Labor Statistics, March 1992.

### *The Decline of the Post-War Structure*

Since the 1960s, the institutional framework of U.S. labor relations has frayed badly. Beginning with difficulty in organizing workers in the expanding service sector and in the South, union coverage has fallen to only 12 percent of the private nonagricultural labor force (table 4-1). Facing growing international competition, U.S. firms took advantage of widening gaps between union and nonunion wages to locate new, nonunion plants in low-wage, rural areas. Given the decline of union coverage to pre-Wagner Act levels—and the possibility that this

### **Box 4-D—Labor Rights and Union Decline: A U.S. Representation Gap?**

Does declining union coverage reflect worker preferences, employer opposition, or both? Since the mid-1950s, U.S. employers have campaigned more aggressively prior to elections, taking advantage of the scope permitted them under the NLRA. By the 1970s, advising corporations on how to remain “union-free” had become a thriving cottage industry.<sup>1</sup> Paul Weiler has argued that employer intimidation has played a substantial role in generating what he calls the “U.S. representation gap.”<sup>2</sup>

A 1988 Gallup poll found that 70 percent of workers believed that “employers sometimes harass, intimidate, or fire employees who openly speak up for a union. Forty percent believed their own employer would use such tactics on them. Employer campaigns against unions rely on a combination of legal delays, extensive use of management free speech rights to discourage union support, and—whether deliberately or not—violations of Wagner Act protections (“unfair labor practices”). One common delaying tactic is to dispute the bargaining unit defined by a union. “Free speech” rights give employers many avenues for persuading workers that union formation would not serve their interests; unions, in contrast, have very limited rights of access to workers.<sup>3</sup> Weiler has estimated the fraction of union supporters fired illegally during certification campaigns at 1 in 20.<sup>4</sup> Penalties are light if the courts find employers have violated the law: workers fired for union activity are entitled only to back pay minus earnings in the interim. Back pay awards average around \$2,000; if the company seeks delays, reinstatement can take years.

Other analysts have challenged Weiler’s emphasis on management opposition in explaining union decline, pointing out that charges of unfair labor practices are filed against employers in only about 30 percent of elections that unions lose.<sup>5</sup> They argue that union decline reflects worker preferences: once unions became large bureaucratic organizations, their appeal as a rank-and-file movement for social justice diminished, while male-dominated industrial unions did not adapt well to increases in working women and an expanding service sector.

<sup>1</sup>Richard B. Freeman and James L. Medoff, *What Do Unions Do?* (New York, NY: Basic Books, 1984).

<sup>2</sup>See, most recently, Paul C. Weiler, *Governing the Workplace: The Future of Labor and Employment Law* (Cambridge, MA: Harvard University Press, 1990).

<sup>3</sup>Unions may enter employer property during certification campaigns only when they have “no other reasonable” means of communication—e.g., to contact isolated groups of loggers working and living on company land. In January 1992, the Supreme Court ruled that the opportunity to run local radio ads or hold up signs from an adjacent highway constituted “reasonable” means of communication with workers at a retail store in a shopping center. Thus, the union could not campaign from the parking areas held in common by employers in the center. While union supporters among the workforce have access to their fellow workers during break time and at the beginning and end of a shift, open campaigning exposes them to possible recriminations.

<sup>4</sup>Weiler, *Governing the Workplace*, op. cit., footnote 2, pp. 238-239.

<sup>5</sup>Robert J. Lalonde and Bernard D. Melzer, “Hard Times for Unions: Another Look at the Significance of Employer Illegals,” *University of Chicago Law Review*, vol. 58, 1991, p. 953. Lalonde and Melzer also argue that Weiler overstates the prevalence of illegal discharge for union activity. A response by Weiler follows their article.

may reflect employer intimidation—some observers have suggested that the NAFTA debate concerning labor rights is one-sided, and that scrutiny of Mexico should be complemented by a hard look at the rights of U.S. labor to associate, organize, and bargain collectively (box 4-D).

As union membership fell, other pieces of the postwar labor market structure eroded. Industrywide pattern bargaining gave way to wages set in local and regional labor markets, with growing variations within sectors. The process took three decades in some cases (auto parts), only a few years in others. Real wages in meatpacking dropped by nearly 30

percent from 1981 to 1987 as the industry restructured around nonunion plants (ch. 10, box 10-C).

Union decline also contributed to erosion of the social policies supported by labor. Between 1968 and the mid-1980s, the U.S. minimum wage declined by one-third in real terms. UI payments and spending on labor market adjustment, never high by international standards, declined to levels well below those in most other industrial nations (table 4-2).

On the shop floor, as union power declined and international competition rose, companies restructured in ways paralleling recent changes in Mexico. Large, nonunion firms pioneered the “managerial-

Table 4-2-Government Spending on Labor Market Programs

Government spending as a fraction of gross domestic product, 1990-91					
	Unemployment insurance	Employment services	Youth programs	Training	Total <sup>a</sup>
United States.....	0.60 %	0.08 %	0.03 %	—	0.857
Canada <sup>b</sup> .....	1.57	0.21	0.02	0.09	2.08
West Germany <sup>c</sup> .....	1.14	0.22	0.04	0.38	2.18
Britain.....	0.80	0.14	0.18	0.22	1.49
Sweden.....	0.59	0.21	0.05	0.47	2.25
Spain <sup>d</sup> .....	2.33	0.12	0.08	0.10	3.21
Japan.....	0.32	0.02	—	0.03	0.45

<sup>a</sup>Includes other categories not listed individually, %1989-90.

<sup>b</sup>1990.

<sup>c</sup>1989.

SOURCE: *OECD Employment Outlook* (Paris: Organization for Economic Cooperation and Development, 1991), pp. 239-249.

ist" model, seeking greater flexibility .25 By broadening job responsibilities, creating work groups, and investing in training, such firms seek employee contributions to performance improvement. Managerialist firms also place limits on the arbitrary exercise of administrative power to avoid undermining worker commitment to the firm's goals. Some have created internal job ladders and made explicit or implicit promises of job security. As in Mexico, questions remain about the durability of cooperation in the absence of independent worker representation and about the proportion of employees to which management-led cooperation would apply.

In other sectors of the economy, growing numbers of immigrant workers and the vulnerability of less-educated native-born U.S. workers have reinforced low-wage strategies. Examples include not only meatpacking, but many service sector jobs, which, if less routine and less dangerous, pay wages near the legal minimum and offer little prospect of upward mobility.

Among unionized firms, competition from imports and nonunion rivals and emulation of Japanese production methods have spurred departures from traditional models. As in Mexico, substitution of

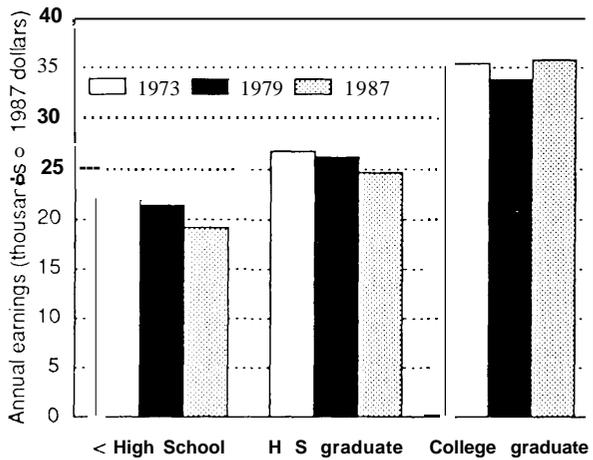
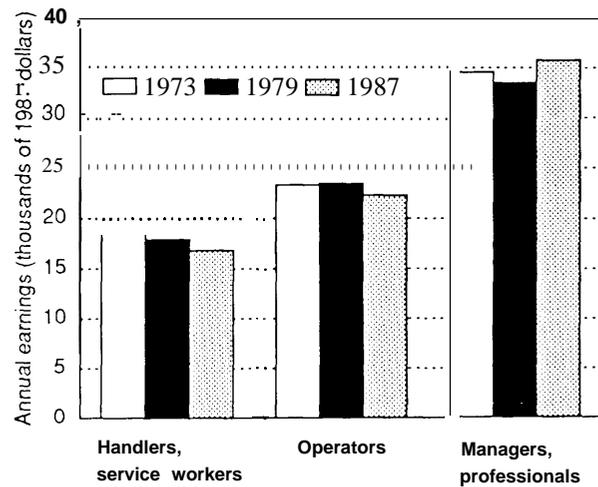
flexible work arrangements for traditional union protections has sometimes followed negotiation, sometimes been unilaterally imposed in the context of plant closing threats.

As unions' capacity to protect workers on the job declined, the U.S. Government expanded its regulation of the labor market, beginning with passage of civil rights and antidiscrimination laws in the 1960s.<sup>25</sup> The Occupational Safety and Health Act (OSHA) followed in 1970 and the Employment Retirement Income Security Act (ERISA), intended to safeguard pensions, in 1974. More recently, the courts have expanded employee rights by reinterpreting existing legislation (e.g., reading freedom from sexual harassment into the law). Through wrongful dismissal litigation, they have also scrutinized personnel practices such as mandatory random drug testing. In theory, expanding individual employee rights has the advantage over unionism of protecting all workers. In practice, close and detailed regulation by government may offer the worst of both worlds: for employers, it creates uncertainty and expense; for most workers, who lack the resources and knowledge to enforce their rights, it provides little meaningful protection.

<sup>25</sup> Ibid. See also Thomas Kochan, Harry Katz, and Robert McKensie, *The Transformation of American Industrial Relations* (New York, NY: Basic Books, 1986), ch. 3.

<sup>26</sup> Paul C. Weiler, *Governing the Workplace: The Future of Labor and Employment Law* (Cambridge, MA: Harvard University Press, 1990), pp. 14-17.

Figure 4-1—Income by Level of Education and Occupation

Figure 4-1(a)—Annual Earnings by Level of Education<sup>a</sup>Figure 4-1(b)—Annual Earnings by Occupation<sup>a</sup>

<sup>a</sup>Whitemales with full-time, year-round jobs.

SOURCE: McKinley L. Blackburn, David E. Bloom and Richard B. Freeman, "The Declining Position of Less Skilled American Men," *A Future of Lousy Jobs? The Changing Structure of U.S. Wages*, Gary Burtless, ed. (Washington, DC: Brookings, 1990).

### *Workers in Trouble: Consequences of Labor Market Restructuring*

#### Wages

By nearly any measure, living standards for most Americans have fallen over the past several decades.<sup>27</sup> Wage declines have been greatest for the over half of the workforce without a college education. Real hourly wages for production and nonsupervisory workers—currently 63 percent of the employed civilian workforce—peaked in 1972, and have since dropped back to the levels of the mid-1960s. Wages for men without a high school diploma declined by 23 percent between 1979 and 1991, for women by 11 percent. Wages fell for male college graduates, too, by 2.3 percent.

At the same time, income inequality has grown: managers and professionals have done relatively better than blue-collar workers; so have those with higher levels of education (figure 4-1). Wage gaps have also opened within the ranks of the blue-collar workforce. The range in earnings among people with similar levels of education (and age) in similar occupations and similar industries grew during the 1980s. With the breakdown of pattern bargaining in

industries like auto parts, workers in independent firms earn much less than those in captive suppliers operated by the automakers themselves (ch. 7).

#### Unemployment and Underemployment

For four decades, unemployment and underemployment have been slowly increasing. A little over 3 percent in 1951, unemployment stood at close to 8 percent in mid-1992—nearly 10 million people in a labor force of 128 million. The United States also has a growing number of underemployed—including those who take part-time jobs because that is all they can get and casual workers in the informal economies of large cities. Most "contingent" workers—without formal or long-term ties to an employer—live without health insurance and retirement plans,

In 1990, the total of the unemployed (6.8 million); involuntary part-time workers (5.4 million); and those earning wages insufficient to support a family of four at the poverty level (14.4 million) came to 26.6 million, some 21 percent of the labor force.

The total has risen since then, and would be higher still if workers who had involuntarily accepted temporary jobs were included. (The government

<sup>27</sup> *Competing Economics: America, Europe, and the Pacific Rim* (Washington, DC: Office of Technology Assessment, October 1991), p. 4; W. Norton Grubb and Robert H. Wilson, "Trends in Wage and Salary Inequality, 1967-88," *Monthly Labor Review*, June 1992, p. 35.

Table 4-3-Worker Displacement<sup>a</sup>

Industry	Displacements		Duration of unemployment			Change in earnings <sup>c</sup>		
	Number per year (thousands)	Annual rate (percent)	Less than 6 months (percentage of displaced workers)	Greater than 6 months at time of survey <sup>b</sup> (percentage of displaced workers)	Reemployed (percentage of displaced workers)	Greater than 50% decline (percentage of workers)	Up to 50% decline (percentage of workers)	Increase (percentage of workers)
All industries.....	2,026	NA	75%	25%	78%	14%	46%	41%
All manufacturing.....	834	3.7%	70	30	77	15	48	37
Agriculture.....	24	0.9	80	20	71	11	47	42
Meat products and canned fruit.....	24	4.1	72	28	76	11	53	36
Apparel, excluding knits....	49	4.9	68	32	73	7	61	33
Computers and peripherals.	16	2.5	83	17	82	10	54	35
Communication equipment.	17	3.1	61	39	69	14	45	40
Electrical machinery.....	51	3.7	72	28	72	12	40	48
Autos and parts.....	51	4.8	60	40	75	25	51	23

NA = Not available.

<sup>a</sup>Over the period 1979-1989.

<sup>b</sup>Within 0-5 years.

<sup>c</sup>Among workers who found new jobs.

SOURCE: Office of Technology Assessment, 1992, based on data from Michael Podgursky, "Changes in the Industrial Structure of Job Displacements: Evidence from the Displaced Worker Surveys," final report to the U.S. Department of Labor, Bureau of International Labor Affairs, August 1991.

collects information neither on such workers nor on those in the informal economy.)

### Displacement

Between 1985 and 1989, 9.2 million workers lost their jobs due to plant closings or layoffs.<sup>28</sup> Workers in industrial sectors threatened by a NAFTA have already been hit hard (table 4-3). The displacement rate (total displacements divided by average industry employment) was 4.1 percent in durable goods manufacturing during the 1979-1989 period, 4.8 percent in autos and parts, and 4.9 percent in the apparel industry.

Falling wages, inequality, and a decline in good entry-level jobs have aggravated the problems faced by displaced U.S. workers. Only half of those who lose their jobs due to plant closings or permanent layoff get unemployment insurance; of those that do, about 40 percent exhaust their UI benefits before finding a new job.<sup>29</sup> Large-scale layoffs create waves of disruption in surrounding communities. Local businesses and supplier firms cut back,

eliminating job opportunities that might otherwise exist and weakening the local economy so that redevelopment becomes more difficult.<sup>30</sup> Unemployment takes a heavy toll on individuals and families, including physical and mental stress, which can lead to spouse and child abuse, substance abuse, and illness. As many as one-quarter of displaced workers lose their health insurance along with their job. Local governments may be trying to increase social services in response to individual and family stress at a time when their tax base is shrinking.

Although many displaced workers quickly find new jobs, others face lengthy periods of unemployment. As shown in table 4-3, one-quarter of all workers (including managers and professionals) laid off between 1979 and 1989 were unemployed for more than 6 months. Displaced workers with substantial prior job experience took two to four times longer to find new employment than others.<sup>31</sup> Nearly 15 percent of displaced workers surveyed in 1988

<sup>28</sup>Michael Podgursky, "changes in the Industrial Structure of Job Displacements: Evidence from the Displaced Worker Survey s," final report to the U.S. Department of Labor, Bureau of International Labor Affairs, August 1991. Workers also quit their jobs voluntarily. In the third quarter of 1990, for example, the total of 6.8 million unemployed included 3.3 million who had been laid off, plus nearly 1 million more who had quit to search for a better job despite the recession and a difficult labor market; the rest of the unemployed were people seeking to enter or reenter the job market. Joseph R. Meisenheimer II, Earl F. Mellor, and Leo G. Rydzewski, "Job Market Slid in Early 1991, Then Struggled to Find Footing," *Monthly Labor Review*, February 1992, p. 15.

<sup>29</sup>Podgursky, *ibid.*, p. 42.

<sup>30</sup>*After the Cold War: Living with Lower Defense Spending* (Washington DC: Office of Technology Assessment, February 1992), p. 153.

<sup>31</sup>Michael Podgursky and Paul Swaim, "Duration of Joblessness After Displacement," *Industrial Relations*, vol. 26, 1987, pp. 213-226.

### **Box 4-E—Worker Aspirations, Labor Market Opportunities, and Social Stability**

Social **stability** depends in part on job opportunities that correspond at least roughly to aspirations. Such a match no longer exists in most U.S. cities, leading to high levels of unemployment among young, less-skilled male workers, many of whom earn their living in the informal economy or turn to crime. The mismatch between aspirations and employment opportunities could worsen in the future for two reasons: the number of high-wage jobs for which less-educated workers can qualify will continue to dwindle, and, by comparison with their parents, fewer immigrants and women may be willing to accept “secondary jobs”—low-wage, low-prestige jobs with little prospect for advancement.

Traditionally, first-generation immigrants filled many of these secondary jobs, along with young people and married women. For all three groups, the social connotations of secondary jobs matter relatively little. The identity of new immigrants tends to remain linked to their status at home (and to dreams of return migration).<sup>1</sup> Unlike their parents, the children of first-generation immigrations have few dreams of going home and no first-hand memories of an even poorer life; they often reject secondary jobs that their parents found acceptable. As a result, labor force participation rates in poor, immigrant Hispanic neighborhoods, which have typically been high (in contrast to ghettos), will probably fall. One example comes from the Houston neighborhood of Magnolia Park where today the children of Mexican immigrants, as well as new immigrants, are stuck in jobs as gardeners, janitors, and babysitters.<sup>2</sup> Labor force participation rates have declined, drug use is beginning to rise, and the birth rate among Hispanic teenagers in Houston is now three times that for whites and 15 percent higher than that of black teenagers.

There are two ways to reduce the social strains resulting from mismatch between worker aspirations and the jobs being created in the U.S. economy. During the 1980s, the United States tried, with only limited success, to force workers to accept secondary jobs by cutting unemployment benefits and social support for able-bodied workers. The second is to turn toward the kinds of policies OTA analyzes in chapter 2, seeking to transform secondary employment opportunities into better-paying, more stable jobs with meaningful prospects for on-the-job training and advancement. Because the service sector is very large and still growing, any such approach would have to focus on this part of the economy (see box 2-B in ch. 2).

<sup>1</sup>Michael J. Piore, *Birds of Passage* (New York, NY: Cambridge University Press, 1979).

<sup>2</sup>See the two-part series, “Without a Ladder: the Mexican Immigrants. Part One: Mexicans Come to Work, but Find Dead Ends. Part Two: Generational Chasm Leads to Cultural Turmoil for Young Mexicans in U.S.,” *New York Times*, Jan. 19, 1992, sec. 1, p. 16 and Jan. 29, 1992, p. A-16.

had become so discouraged that they withdrew from the labor force.<sup>32</sup>

Sixty percent of all displaced workers who find new jobs suffer losses in earnings compared with their previous employment (again including managers and professionals). Manufacturing workers lose more than others, on average earning 10 percent less when re-employed. Workers displaced from high-wage, semiskilled jobs in former union strongholds—such as auto and steel—tend to lose the most. Over a 10-year period, manufacturing workers laid off during the mid- 1980s suffered income losses averaging \$36,000 each, including lost wages during periods of unemployment and lower wages and benefits once reemployed.<sup>33</sup>

### Implications

Taken together, the trends outlined above point to growth in low-wage labor markets offering little prospect of job security or on-the-job training and advancement. If these trends continue, they will aggravate social ills already widespread in the United States (box 4-E). More workers will become discouraged and drop out of the labor market, while others will be unable to support their families. Welfare dependency, crime, and social unrest will increase.

## CONCLUDING REMARKS

Over the last several years, rhetoric in both the United States and Mexico has pictured workers as

<sup>32</sup> Diane E. Herz, “Worker Displacement Still Common in the Late 1980’s,” *Monthly Labor Review*, May 1991, p. 8. Herz, unlike Podgursky (footnote 28), removes displaced workers with less than 3 years tenure from the displaced workers survey sample.

<sup>33</sup> Podgursky, “Changes in the Industrial Structure of Job Displacements: Evidence from the Displaced Worker Surveys,” *op. cit.*, footnote 28.

valued resources whose cooperation is needed for improving productivity. The reality for workers in both countries has included falling real wages, displacement, greater pressure to produce, and the loss of formal and informal protections against arbitrary management authority. From the company perspective, declining wages and benefits, and the loss of on-the-job protections, reflect necessary adjustments to new competitive forces—in effect, the end of earlier, more isolated industrial economies. Few firms see much contradiction between asking workers to make concessions and calling on them to participate in a team effort to compete. Employers have felt that, once workers understand the new realities of international competition, they will accept the compromises necessary to protect their jobs and future income. In the background, for many managers, is a vague idea of Japanese enterprise unionism.

But Mexico and the United States are not Japan. It is hard to envision Mexico's traditions of social solidarity transformed into some notion of 'company as family,' and just as hard to see U.S. individualism transformed in this way. Each country

has a history of broad-based unionism—usually adversarial, periodically militant—that will endure even if the institutional power of organized labor continues to decline. Most important, economic conditions in Mexico and especially the United States are nothing like those in Japan in the early 1950s, when the model of enterprise unionism emerged. Japan's phenomenal growth rates brought employment security, promotion opportunities, and rapid wage increases for workers in large, core firms. These rewards will not be available to cement a management-led model of labor-management cooperation in the United States.

The danger in the United States and Mexico is that employer efforts to have it both ways—unchallenged control as well as worker cooperation—will end up reinforcing North American adversarialism. Workers without the power to negotiate differences in constructive ways will withdraw their effort and cooperation in ways that may not be visible. A NAFTA that contributed to the recognition of this danger and initiated a concerted attempt to avoid it could prove a turning point in North American development.